Prince Edward Island : Report of the Auditor General to the Legislative Assembly, 2001

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INTRODUCTION

REPORT OVERVIEW

Under the Audit Act, the Auditor General is required to report annually to the Legislative Assembly. Observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year are contained in this, my Annual Report 2001. The report also provides information on the status of outstanding recommendations from previous reports.

It is not possible to audit all of government each year, however I strive to obtain reasonable audit coverage on a cyclical basis. The audit work conducted this year covered financial statement audits of the Public Accounts of the Province, a number of Crown agencies, the pension funds, some trust funds and other audits. A number of special audits and examinations were performed during the year. My Annual Report 2001 deals mainly with matters pertaining to the 1999-2000 fiscal year, however many of the issues identified remain current and are still being addressed by government.

Again this year, my report includes information on the Province's Finances. The section on **Special Audits and Examinations** summarizes the results of various value-for-money audits including Lending Activities and Loan Guarantees; Golf Links Prince Edward Island Inc.; Construction of the Provincial Addictions Centre; Government Grants-Department of Development and Technology; and Government Grants-Department of Agriculture and Forestry. The **Financial Statement Audits** section provides some information on significant issues arising from the financial statement audits conducted by the Office during the year.

As a result of our work we provide recommendations to departments and agencies to improve public sector management and administration. Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the Annual Report, **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office; the responsibilities of the Auditor General; the operating philosophy of the Office; Office personnel, administration, and affiliations; and the objectives and accomplishments of the Office.

ACKNOWLEDGEMENTS

To maximize the contribution the Office makes to the improved management and control of public resources, cooperation from Ministers, Deputy Ministers, Heads of Crown agencies, and their staff is essential. The Office received full cooperation in completing the audits covered in this Annual Report. I would also like to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my Office.

Finally, to the staff of my Office, I express my appreciation for their professionalism, hard work and support.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Providing an explanation of the Province's finances is a challenge at the best of times. This challenge has become even more difficult with the creation of the Special Projects Funds and the growing difference in the bottom lines between the Operating Fund and the Consolidated (Summary) Financial Statements.

1.2 We have advocated for many years that the working documents to assess the financial condition of the Province should be a consolidated budget and consolidated financial statements. Instead, we have a budget based on the Operating Fund only and two sets of financial statements showing two different bottom lines.

1.3 Add to this the creation of the Special Project funds with $47 million allocated from the Operating Fund over the last two years and an assessment of the Province's overall financial situation becomes more difficult. In reality, the creation of the Special Projects funds are internal transactions and have no impact on the consolidated financial position of the Province until the actual expenditures are incurred by the funds.

1.4 It is important for the reader to focus on the Consolidated (Summary) Financial Statements when making any assessments of the Province's financial condition. These statements provide a complete picture of the Province's financial position.

1.5 Compared to the other provinces Prince Edward Island's net debt to GDP ratio is lower than four provinces and higher than the other five. Compared to the other Atlantic provinces our ratio is the most favourable. While the growth in the economy averaged over four percent in the last two years the net debt hovered around $1 billion. We remain dependent on federal government transfers with over one-third of revenue from that source. Our interest costs still remain over $100 million annually which consumes valuable resources that could otherwise be used for programs. Our economy has performed well in the last few years and this has enabled the Province to deliver services and meet creditor requirements without increasing the debt burden on the economy. However, the billion dollar net debt and related interest costs continue to be the albatross

that will limit our flexibility to deal with any adverse factors impacting our financial position.

BACKGROUND

1.6 The Public Accounts record the Province's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. These financial statements are complex because the diverse activities of a $900 million operation are summarized in a few documents.

1.7 As in previous years, we are providing information to help put the numbers in perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition. Because the Province's finances have a significant impact on the Provincial economy, it is essential that Members of the Legislature are provided with information to enable them to understand and debate the financial affairs of the Province.

1.8 My discussion of the Province's finances is based on the **Consolidated (Summary) Financial Statements** which include the Special Projects Fund, Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.9 Some of the common terms used to describe the Province's financial condition are described below.

1.10 The **annual surplus or deficit** is the difference between a government's revenues and expenditures. This measure shows the extent to which revenues raised in the year were sufficient to meet expenditures in that year. For the year ended March 31, 2000, the Province incurred a surplus of $12.4 million.

1.11 The **total debt** is the amount owed by the government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2000 was $1.6 billion. The Province has a sinking fund for the retirement of debentures and Canada Pension Plan loans. The balance of this Sinking Fund at March 31, 2000 was $236 million.

1.12 **Financial assets** are cash and other assets convertible to cash which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2000 were $256 million.

1.13 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2000 was just over $1 billion.

1.14 The **interest charged on the debt** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs. The interest charges on the debt for the year ended March 31, 2000 were $102.7 million, an increase of $1.3 million from the previous year.

1.15 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada. The major components of the economy in PEI are agriculture, food manufacturing, construction, transportation, retail trade, government services, education, health and social services.

1.16 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past five years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY FINANCIAL INFORMATION
($ Millions)

	2000	1999	1998	1997	1996
	$	$	$	$	$
Surplus (Deficit)	**12.4**	28.1	(6.3)	(11.0)	8.5
Net Debt	***1009.9**	993.8	1,021.9	1,015.6	981.1
Debt Charges	**102.7**	101.4	101.9	115.5	121.1
GDP	**2,994**	2,851	2,763	2,814	2,663

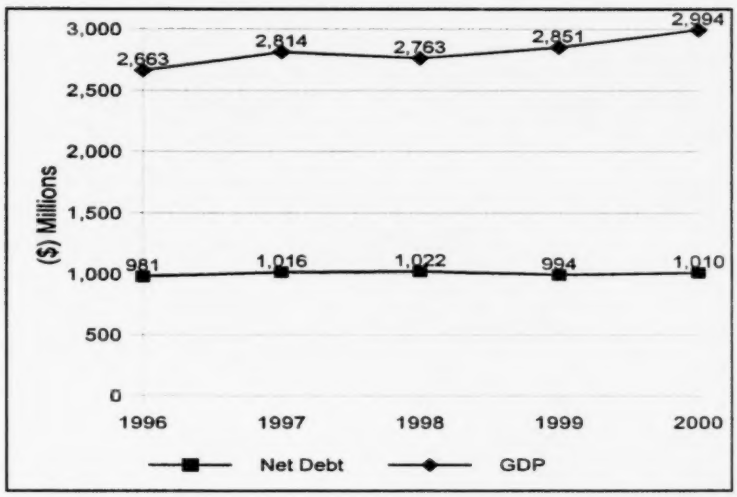
*Includes employee benefits accrual adjustment of $28.5 million.

1.17 Over the past few years we have reported on certain key indicators of government's finances. These have been defined in the Research Report entitled, *Indicators of Government Financial Condition* published by the Canadian Institute of Chartered Accountants. The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators provide information to assess the financial condition of the Province.

SUSTAINABILITY

1.18 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the government's annual surplus or deficit, net debt and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and raising revenues. **Exhibit 1.2** shows the trend in the net debt and the Province's GDP since 1996. The net debt for 1999-2000 is shown after the adjustment for the employee benefits accrual of $28.5 million.

EXHIBIT 1.2
THE GOVERNMENT'S NET DEBT AND THE PROVINCE'S GDP

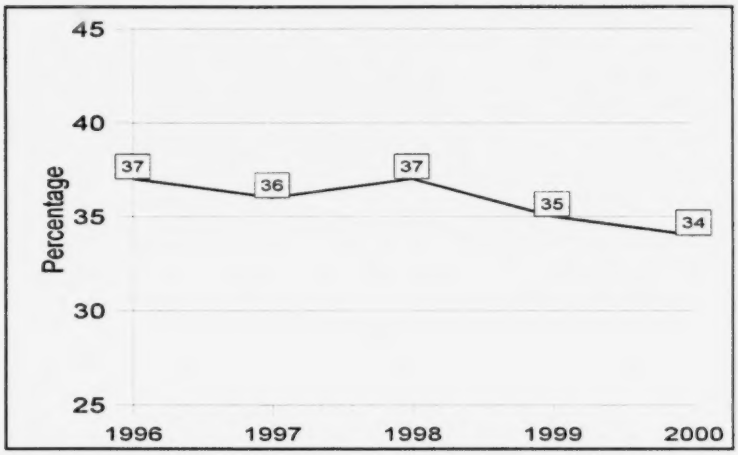


1.19 The GDP of the Province indicates the size of our economy. The Province's economy supports government operations through taxes and fees. Prince Edward Island has experienced steady growth in the economy in recent years. While the GDP has increased by 12

percent since 1996, the net debt increased by 3 percent during the same period.

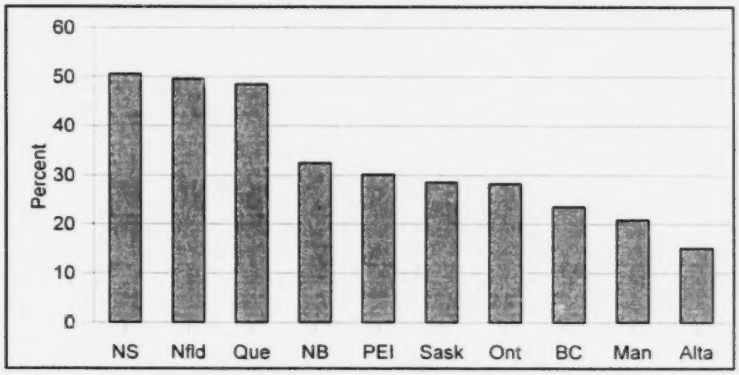
1.20 **Exhibit 1.3** compares the net debt to GDP ratios since 1996. It shows that the net debt to GDP ratio is declining which is a positive sign. It declined from a high of 37 percent in 1996 to 34 percent for the past year, after adjusting for the employee benefits accrual of $28.5 million. This indicates an increased ability, since 1996, to sustain existing programs and services.

EXHIBIT 1.3
NET DEBT AS A PERCENT OF GDP



1.21 To help put this information in perspective, it is useful to compare our net debt to GDP ratio with other provinces. The Ministry of Finance and Corporate Relations for British Columbia provided the information in **Exhibit 1.4** in its *Debt Statistics* report for the fiscal year 1999-2000. The information is adjusted for interprovincial comparison and is presented on a different basis than our Public Accounts. However, it does provide a basis for assessment relative to the other provinces.

EXHIBIT 1.4
INTERPROVINCIAL-COMPARISON OF TAXPAYER SUPPORTED NET DEBT AS PERCENT OF GDP AS AT MARCH 31, 2000*



*** Source: Moody's Investors Service; July 2000.**

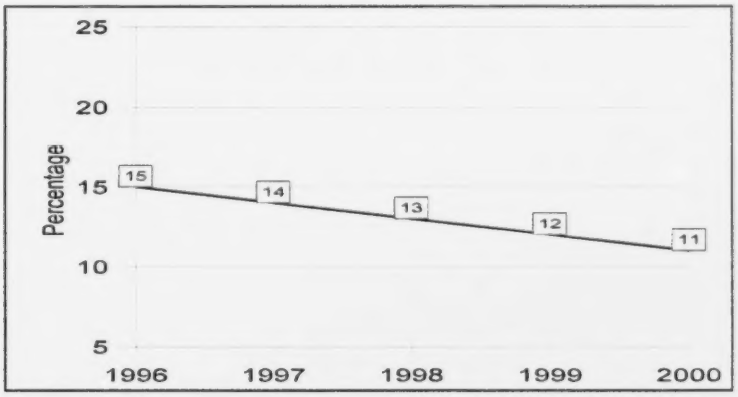
FLEXIBILITY

1.22 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt.

1.23 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services. In the current year, the debt burden and debt charges increased slightly.

1.24 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite". In 1999-2000, debt charges were $102.7 million. The trend in the interest bite is shown in **Exhibit 1.5**.

EXHIBIT 1.5
DEBT COSTS AS A PERCENT OF REVENUE

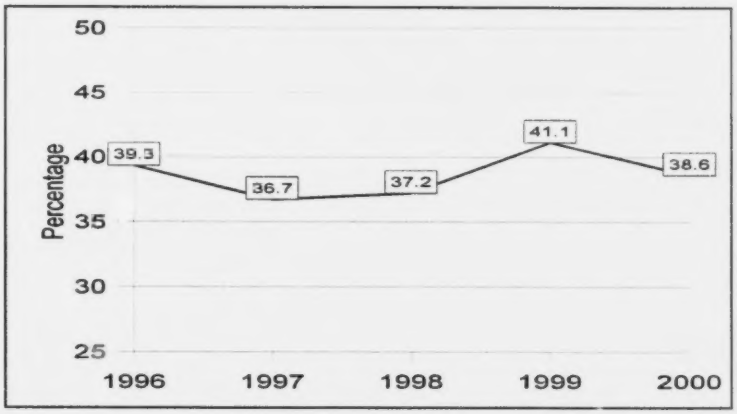


1.25 As indicated in **Exhibit 1.5**, the interest bite has declined from 15 percent in 1996 to 11 percent of total revenues in 1999-2000. Therefore, an increasing proportion of revenues generated by the Province is available to pay for programs. While this is a positive trend, our net debt is approximately a billion dollars and the first $103 million raised each year still goes to the holders of our debt. To put this in perspective, the budget for the Province's seven acute care hospitals was $82 million in 1999-2000.

VULNERABILITY

1.26 Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to sources of funding outside its control or influence. The provincial government obtains revenue from taxation and user fees and through transfers from the federal government. In 1999-2000, the federal government provided approximately $356 million to the Province, a decrease of $4 million from 1998-99. The trend in federal transfers relative to total revenues for the last five years is shown in **Exhibit 1.6**. This exhibit shows that approximately 39 cents of each dollar of revenue received by the Province in 1999-2000 came from the federal government.

EXHIBIT 1.6
FEDERAL TRANSFERS AS A PERCENT OF REVENUE



SUMMARY

1.27 The purpose of this section is to provide an update on key financial indicators that can be used to interpret the Province's financial condition. We believe it is useful for Members of the Legislative Assembly to have a regular update on this type of information. The indicators are relevant to government and serve to summarize and put into perspective the finances of government. Having said this, we recognize that there are other relevant non-financial matters that have to be taken into consideration by Members in analyzing financial results and making budgetary decisions.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 The Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. Subsection 13(2) of the Audit Act establishes the mandate for the Office to conduct special audits and examinations.

2.2 It is not possible to audit all of the Province's programs each year due to the size and complexity of its operations. Therefore, audits are conducted on a cyclical basis. In determining the annual audit selection many factors are considered such as the results of previous audits, financial impact, and significance to the Legislature.

2.3 Special audits and examinations are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants and are conducted in a series of stages. In the planning phase information is gathered from the auditee, as well as other external sources, to gain an understanding of the program or entity. From this information an audit plan is prepared. Evidence is collected and analyzed, and findings and recommendations are developed in the implementation phase. In the reporting phase a draft report is issued and discussed with the auditee. At the conclusion of the audit a final report is issued to the department or agency and a written response is requested.

2.4 For most of our audits, recommendations are developed to address the issues identified. However, we do not infringe on management's right to select the most appropriate course of action to deal with the problems identified. We are primarily concerned that the issues be satisfactorily addressed.

2.5 I am required, under Section 16 of the Audit Act, to call attention to any matters which I consider necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following special audits and examinations: Lending Activities and Loan Guarantees; Golf Links Prince Edward

Island Inc.; Construction of the Provincial Addictions Centre; Government Grants-Department of Development and Technology; and Government Grants-Department of Agriculture and Forestry.

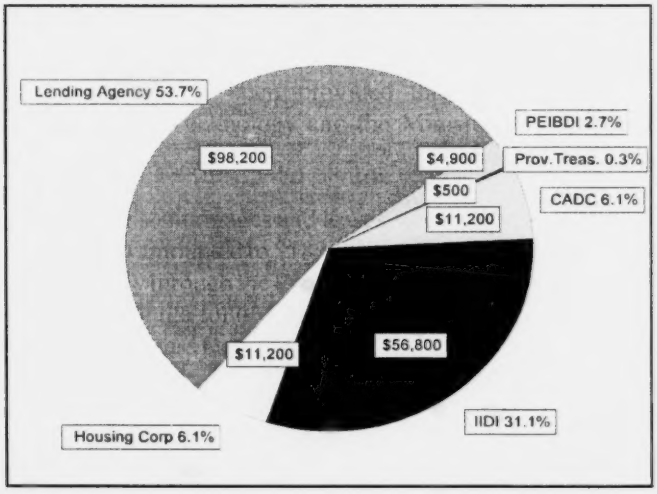
3. LENDING ACTIVITIES AND LOAN GUARANTEES

BACKGROUND

3.1 Financing and financial support is provided by way of loans and loan guarantees primarily for the purpose of promoting economic development, wealth, and employment creation in the Province. Most of this financing has been provided through the Ministry of Development and Technology and the Ministry of the Provincial Treasury.

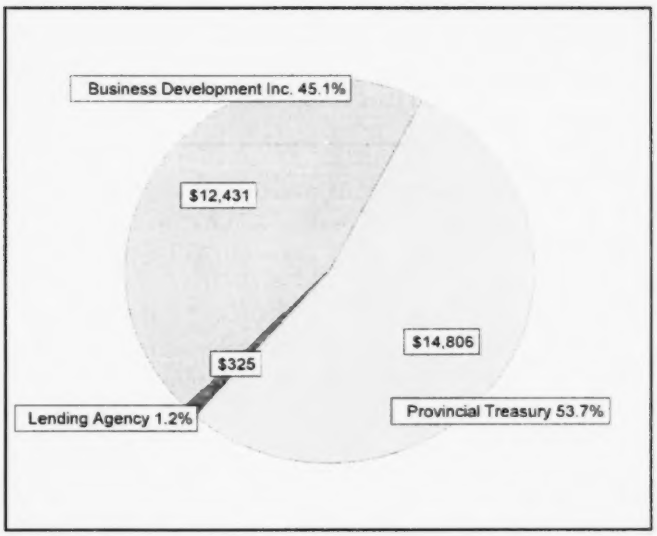
3.2 The loans, mortgages and leases receivable by government at March 31, 2000 amounted to $182.8 million. Some of these loans are provided directly through the Provincial Treasury but the majority are provided through the following government agencies; PEI Lending Agency, PEI Business Development Inc. (PEIBDI), Island Investment Development Incorporated (IIDI), the Charlottetown Area Development Corporation (CADC), and the Housing Corporation. **Exhibit 3.1** provides a breakdown of the loans receivable by the Province and its agencies.

EXHIBIT 3.1
LOANS RECEIVABLE AS AT MARCH 31, 2000
(000s)



3.3 The loan guarantees reported in the Public Accounts at March 31, 2000 amounted to $27.6 million. Loan guarantees are primarily provided through PEI Business Development Inc., PEI Lending Agency, as well as through the Department of the Provincial Treasury. **Exhibit 3.2** provides a breakdown of the loan guarantees outstanding by department and agency. The loan guarantees provided through the Department of Provincial Treasury include lines of credit to government agencies as well as a guaranteed debenture of $11.2 million for CADC related to the refinancing of the Royal Trust Tower (now BDC Place).

EXHIBIT 3.2
GUARANTEES AS AT MARCH 31, 2000
(000s)



OBJECTIVES AND SCOPE

3.4 In accordance with section 13 of the Audit Act we conducted an examination to assess whether adequate management practices and controls were in place and consistently applied in providing financing to the private sector through loans and loan guarantees. We wanted to ensure that the financing objectives were clear, linked to the provincial economic development strategy and reflected in planning processes and programs. In addition we looked for performance to be monitored and information reported at various levels.

3.5 Although our audit covered loans and guarantees across government, we concentrated our detailed audit work on loans provided through the PEI Lending Agency and loans and guarantees provided through PEI Business Development Inc. Loans receivable at the Housing Corporation, CADC and IIDI, as well as the guaranteed debenture at CADC, were examined in previous audits and reported on in recent annual reports.

3.6 Our examination was performed in accordance with the auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL OBSERVATIONS

3.7 The PEI Lending Agency administers a portfolio of over $98 million in loans and leases receivable. Policies and procedures are in place over the assessment and granting of credit, and loans are required to be monitored in accordance with the terms established in the letters of offer. We identified several instances where compliance with policies and standard procedures could be improved. In addition, we noted that PEI Business Development Inc. had development loans outstanding of $4.9 million at March 31, 2000. We noted the need for greater cooperation between the Lending Agency and BDI regarding lending activities.

3.8 At March 31, 2000 PEI Business Development Inc. had loan guarantees outstanding of over $12 million, and as of the date of our audit report the balance had increased to over $18 million. The use of loan guarantees for development purposes has increased significantly in recent years. We made a number of observations related to appropriate approvals, implementation of administration fees, and compliance with program criteria.

DETAILED AUDIT OBSERVATIONS

Governance

3.9 The goals of PEI Business Development Inc. (BDI) and PEI Lending Agency are complementary and broadly aimed at achieving economic growth for job and wealth creation within the Province. The means to achieve this growth is to encourage new businesses to locate in Prince Edward Island or encourage expansion of existing business. Business prospecting is extremely competitive. It is for this reason that cooperation between PEI Business Development Inc. and the Lending Agency is so vital.

PEI Lending Agency

3.10 In 1992 government consolidated all of its lending activities to private sector entities into one organization, the PEI Lending Agency. In 1993, the Agency was dissolved and its activities were provided by the Lending Services Division of Enterprise PEI, which was a Crown corporation responsible to the Minister of Economic Development. With the proclamation of the PEI Lending Agency Act in 1998, the Agency was re-established as a Crown corporation this time under the Ministry of the Provincial Treasury.

3.11 The Lending Agency Act requires the affairs of the Corporation to be governed by a Board of Directors consisting of; the Deputy Provincial Treasurer, the Deputy Minister of Development, and six representatives of the private sector. The Lieutenant Governor in Council appoints the private sector members, designates one as chairperson of the Board, and appoints the Chief Executive Officer (CEO) who has responsibility for the overall administration of the affairs of the Agency in accordance with the Act.

3.12 The Lending Agency has a dual role; both to assist in public policy objectives through support of higher risk enterprise development as well as to provide lending services employing sound lending criteria and protecting government's investments. These two roles can sometimes be in conflict but they are both essential to effective lending services for government.

PEI Business Development Inc.

3.13 In our 1997 Annual Report to the Legislature, we reported on the results of our audit of Development Incentives and Lending Activities. We made a recommendation that the governance structure for what was then Enterprise PEI should be revised and brought in line with other Crown corporations in the public sector. Specifically we recommended that a Board of Directors be appointed to fulfil important oversight and decision-making roles. We noted that the new Act creating PEI Business Development Inc. requires the establishment of a Board of Directors to conduct the affairs of the corporation.

3.14 The Prince Edward Island Business Development Inc. Act sets out the membership on the Board of Directors to include both the Minister and Deputy Minister of the Department of Development and Technology, the Deputy Provincial Treasurer, and two persons appointed by the Lieutenant Governor in Council. The Act establishes the Minister as chairperson of the Corporation and provides for the appointment of a Chief Executive Officer by the Lieutenant Governor in Council.

3.15 The Act was proclaimed in November 1999 but as of September 2000 only two Board meetings had been held. The authorization levels in place for the former Enterprise PEI were still in effect and there was no level of development assistance that required the authorization of the Board. In order for the Board of Directors to influence the effectiveness and impact the direction of BDI, a clearly defined role and level of authority must be developed, approved and communicated. When discussing our report with officials of BDI, we were advised the Board intends to meet on a quarterly basis and proposed changes to authorization limits will be presented for approval at the December meeting.

3.16 Business prospecting, one of the key objects of the Corporation, is where the management and staff of BDI concentrate their efforts. In order to be successful BDI must be able to offer a comprehensive package of financial incentives and support within reasonable limits. Financial assistance by way of repayable loans can be an appropriate tool to encourage new and developing businesses. We noted that BDI issued development loans amounting to $4.9 million in the 1999-2000 year. However, we were advised it is not

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the intention that the corporation establish its own lending services section.

3.17 The Lending Agency is government's lender and has well established processes for assessment, administration and monitoring of loans. It is in the best position to manage government loans, even those of high risk. Where lending services and economic development assistance are now under two separate Ministries, improved cooperation and better communication is required to ensure good management practices over loans of a development nature and maximization of overall benefits to the Province.

Recommendations

3.18 The Board of Directors of BDI should ensure its plan to meet on a regular basis is put into practice and that it fulfils its responsibilities as established in the PEI Business Development Inc. Act.

3.19 Policies dealing with authorization levels for loans, guarantees, and development assistance should be approved by the Board of Directors of BDI.

3.20 Consideration should be given to transferring loans made by BDI to the Lending Agency for monitoring, and collection.

Management Direction

3.21 Government has recently released a new economic development strategy, *Bridging Tradition and Technology*. The strategy was developed after a period of extensive consultation across departments. It builds on the previous strategy and embodies government's vision for the future of Prince Edward Island. We looked for strategic planning to occur within PEI Business Development Inc. and the PEI Lending Agency consistent with the economic development strategy for the Province.

PEI Lending Agency

3.22 With the re-establishment of the Lending Agency in 1998 as a Crown corporation, a consultant was engaged to provide recommendations on the direction and focus of the new organization. A report was prepared and presented to the Board of Directors and

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some of the consultant's conclusions have been addressed. However, a strategic plan has not been documented for the Agency.

3.23 For any public sector organization there is an expectation that the organization would have a plan outlining its strategic direction, objectives, programs and activities, and results to be achieved. Lending does not have an operational plan other than the budget. The CEO of Lending indicated they are a reactive service provider and must respond to the applications received. They do not actively market their services as this would be seen as competing with private sector lenders. Even though there is no documented operational plan it is evident that some planning is carried out. An operational plan is needed to outline the direction of the organization and provide clear objectives and expectations for the organization and its employees.

PEI Business Development Inc.

3.24 PEI Business Development Inc. has a strategic plan which was developed through an internal planning process. The plan documents the mission of the organization and describes the responsibilities of each of the divisions. It also includes an action plan which focuses on communication, marketing, and promotion of the organization and its services.

Recommendation

3.25 The Lending Agency should prepare and document a strategic and operational plan.

Lending Activities

3.26 The PEI Lending Agency is the Province's primary lending services provider with over 50 percent of the loans outstanding administered through this Agency. The mandate of the Agency as established in the Lending Agency Act is to provide financial assistance, through loan agreements, to Island businesses and entrepreneurs. The Agency extends term loans, mortgages and operating lines of credit, as well as offers advice or assistance to businesses seeking credit for start up or expansion.

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3.24 PEI Business Development Inc. has a strategic plan which was developed through an internal planning process. The plan documents the mission of the organization and describes the responsibilities of each of the divisions. It also includes an action plan which focuses on communication, marketing, and promotion of the organization and its services.

Recommendation

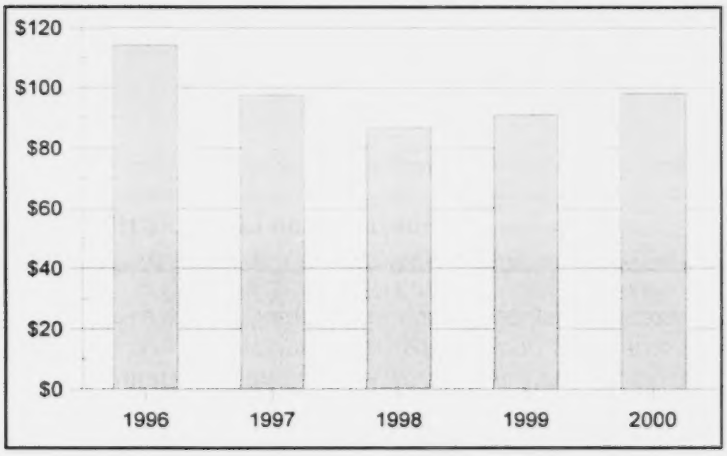
3.25 The Lending Agency should prepare and document a strategic and operational plan.

Lending Activities

3.26 The PEI Lending Agency is the Province's primary lending services provider with over 50 percent of the loans outstanding administered through this Agency. The mandate of the Agency as established in the Lending Agency Act is to provide financial assistance, through loan agreements, to Island businesses and entrepreneurs. The Agency extends term loans, mortgages and operating lines of credit, as well as offers advice or assistance to businesses seeking credit for start up or expansion.

3.27 The Agency's portfolio of loans and leases receivable amounts to $98 million with a related provision for loss of $5.9 million. **Exhibit 3.3** illustrates the change in the loan portfolio since 1996.

EXHIBIT 3.3
LOANS RECEIVABLE-LENDING AGENCY/LENDING SERVICES
1996-2000
(Millions)



3.28 In 1994 a strategy was established for Lending Services which called for closer monitoring of delinquent accounts, graduating bankable clients to conventional lenders, reducing resource lending and focussing on industries identified in the economic development strategy. The portfolio declined consistent with the strategy except for the effect in 1996 of a $25 million loan to a potato processing company. With the re-establishment of the Lending Agency as a separate Crown corporation, the operating philosophy has changed. According to the CEO and as reported in the annual report of the Agency, the Agency is now following a more open-door approach to potential clients wishing to use its services. The portfolio has increased each year since 1998. **Exhibit 3.4** provides a breakdown of the loan portfolio by sector over the last three years.

EXHIBIT 3.4
LOANS RECEIVABLE
BY SECTOR
LENDING AGENCY/LENDING SERVICES
(Millions)

Sector	Year Ended March 31 2000	1999	1998
Agriculture	$10.63	$10.85	$12.44
Tourism	10.41	9.81	10.08
Manufacturing and Processing	14.07	12.73	9.28
Fisheries and Aquaculture	9.50	7.14	6.22
Small Business	7.40	4.17	3.93
Blueberry and Cranberry	9.04	7.37	5.76
Strategic Economic Development	28.74	29.38	30.42
Hog Program	1.92	3.03	-
Other	1.02	.37	1.01
Leases	5.45	6.17	7.59
Total	**$98.18**	**$91.02**	**$86.73**

Loan Approvals

3.29 The PEI Lending Agency has documented policies and standard procedures in place for the assessment and granting of credit. These include application and approval processes, project evaluation procedures, assessment of credit risk, and loan conditions for both new and existing clients.

3.30 According to policy approved by the Board of Directors and effective January 1, 1999, security required includes a promissory note and a personal guarantee as well as specific security based on the circumstances of the loan. In general the level of security varies depending on the risk assessment, security available, and purpose of the loan.

3.31 The Regulations to the PEI Lending Agency Act require the approval of the Lieutenant Governor in Council for any loan to any one borrower or affiliated company where the total exceeds $2.5 million in the aggregate. The Board level of approval was increased to $2.5 million from $1.5 million effective May 1, 1999. The Regulations are supported by a clearly defined policy approved by the Board of Directors. Account managers can approve up to $100,000,

the CEO up to $350,000 and the Board of Directors up to $2.5 million.

3.32 Although an individual loan may fall within the authorization level of the account manager, when added to the total outstanding for that client it may require a higher level of authorization. Similarly, in keeping with the Regulations, where there are separately incorporated companies that are affiliated through common shareholdings, the amount outstanding for the affiliated group must be considered. The size and status of other related loans outstanding is essential information to consider in assessing new loan applications.

3.33 We noted one client in our review who is a shareholder in a number of companies, five of which had loans outstanding at March 31, 2000 at the Lending Agency.

3.34 In February 1999, a loan application was approved by the Board of Directors for one of these companies in the amount of $1.5 million. The approval level of the Board at that time was $1.5 million. At the date of approval there were already two outstanding loans totalling $1.4 million to companies in which the client was a shareholder.

3.35 In March 1999 the same shareholder requested a $1.9 million loan for a separate company which was approved by Executive Council as required. The information provided to Executive Council at that time indicated the previous loan of $1.5 million was to an affiliated company but did not refer to the previous two loans to companies where the client had substantial ownership. A further loan to another company for $493,000 was approved later that year by the Board of Directors only. For this company the client did not have controlling ownership but he did provide a personal guarantee for the full amount of the loan. This loan was not referred to Executive Council for approval.

3.36 The overall effect is that there were five loans pertaining to this client and it appears that three of these loans should have received Executive Council approval, however, only one did.

3.37 The definition of an affiliated company in the Regulations to the Lending Agency Act is somewhat vague. Whether a business is affiliated with another through direct, indirect or common control is a legal matter. However, the intent of the regulation and supporting

signing authority policy is to alert decision makers to the total exposure by the PEI Lending Agency to any one client. In instances where it is not clear if the loan is to an affiliated company, and where the aggregate loans exceed the authorization level, then the loan approval should be made at the higher level.

3.38 In examining loan approvals we looked for the approval to be based on sound business decisions considering the client's equity and ability to repay the loan. We found that generally the Agency conducts a thorough project evaluation which includes an overall risk assessment. However, not all files demonstrated the ability of the client to meet the payment terms applied for.

3.39 In one case the applicant was a farmer who had judgements against him from other creditors. His spouse incorporated a new company and applied for a loan to pay out an existing creditor and obtain working capital to allow the couple to finance a crop. The Director of what was then the Division of Lending Services denied the loan based on an evaluation carried out under established lending criteria. In June of 1997 the Minister responsible for Lending Services and the Deputy Minister of Economic Development and Tourism at that time authorized a $500,000 working capital loan to the client, overriding the recommendation of the Director. As of March 31, 2000 the estimated loss on this account was $260,000.

3.40 In another case, in January of 1998 a private company approached government seeking financing to complete renovations on a tourism facility. There was an immediate need for $500,000 to pay trades people and avoid liens against the company. At the direction of the Minister of Economic Development and Tourism at that time, the Director of the Lending Services Division advanced funds of $500,000 taking a first charge on the facility as security. In addition, a letter of offer was approved by the Credit Review Committee for a total loan of $1.3 million.

3.41 This loan offer was part of an overall financing package amounting to $7.65 million to be provided by the Lending Services Division, Business Development Bank of Canada, ACOA, and the existing shareholders. A number of conditions were attached to the loan, the key one being the securing of an operating agreement with a recognized hotel chain. Negotiations have taken place with two separate hotel chains but satisfactory arrangements have not been reached and the entire financing package has not been implemented.

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In 1999 a further $300,000 was advanced with the approval of the Board of Directors. These funds were to pay trades people and remove liens against the company to allow sale of the property to a development company that expressed interest at that time. As at March 31, 2000, the property had not been sold and $800,000 plus accrued interest of $169,210 remains outstanding on this loan. Even though the Lending Agency has a first charge on the facility, the value of the security is questionable.

Recommendations

3.42 The signing authority policy dealing with the approval levels for the Board of Directors and the Lieutenant Governor in Council should be followed.

3.43 The size and status of loans to affiliated clients should be considered in assessing new loan applications and, if there is any doubt as to whether companies are affiliated, the loan approval should be referred to the higher level.

Loan Monitoring

3.44 Letters of offer typically set out the monitoring requirements for loans. These at the least require the submission of annual financial statements reviewed by an independent accountant and depending on the type of loan and the risk level may also require other types of information such as monthly interim financial statements, aged accounts receivable statements and monthly payables and inventory statements. For each loan we reviewed, we looked for evidence of monitoring in accordance with the requirements established in the letter of offer.

3.45 The Blueberry Development Strategy, implemented in 1995, is a program where loans are provided for the purchase of land and equipment as well as to cover development costs to bring land with blueberry growing potential into production. Interest is capitalized for up to five years and a repayment schedule is then drawn up based on expected cashflows. Monitoring is particularly important under this type of program to ensure funds borrowed are used in the operation, the lands are being developed as planned, and the security is still intact.

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3.46 There were 38 clients at the Lending Agency who had loans outstanding under the Blueberry Development Strategy totalling $8.6 million at March 31, 2000. Of these, three clients represent 70 percent of the total Blueberry Development portfolio. Several larger loans have maturity dates in 2000-01.

3.47 We noted one client had loans outstanding under the Blueberry Development Strategy of $1.4 million at March 31, 2000 and annual financial statements as required by the loan agreement had not been received since the funds were advanced in 1995.

3.48 A review of the client file indicates some monitoring procedures were conducted, including site visits, however, the annual financial statements prepared under a review engagement by an accounting firm as required by the loan letter of offer were not received. These would have provided information as to how the loan funds were spent and how the project was progressing.

3.49 In the same file there is an indication that the two owners were in disagreement in 1998 and were considering dissolving the corporation. We noted that a formal review was not initiated until after our audit enquiries, some two years later. This loan review, which was in progress at the time of our audit, will consist of a review of the lands by a Department of Agriculture representative, estimate of production from the properties, a business plan for the future, required financial statements, and a proposed debt repayment plan. Indications are that there is significantly less land in production and lower estimated yields per acre than anticipated in the loan application.

3.50 In a separate case, a $1.3 million loan was provided to a client in 1995 to develop 1,000 acres of blueberry land. The letter of offer required quarterly cashflow statements and annual financial statements reviewed by an independent chartered accountant. We noted that the requirement for quarterly cashflow statements was not complied with and the most recent financial statements on file were for the 1997 year.

3.51 In the same file, the letter of offer stated that the maximum outstanding loan would not exceed $1.5 million including interest, thus limiting the total exposure of the Agency. We noted the total indebtedness including the accrued interest at the due date of October 31, 2000 was over $2 million. Instead of a loan repayment schedule

being prepared at the due date of the loan, the loan was transferred from a blueberry development loan to a demand loan pending arrangements by the debtor to establish a repayment schedule. We were advised that approval of Executive Council and the Board of Directors was not obtained for this transfer. However, management advised that subsequent to the transfer the Board was informed of the action taken.

3.52 In reviewing this loan from the Lending Agency we noted that the same client had received assistance totalling $3.2 million from PEI Business Development Inc. also for the development of blueberry lands. In 1997 this client sold a blueberry processing facility which had been partially financed with grants provided by the Province. After extensive negotiation, the client was required to refund $3.1 million of the $3.8 million which had been provided for plant construction. The Province made a commitment at that time to provide up to $3.2 million to the client or a related company for future economic development under several options, one of which was the development of blueberry lands. The Executive Council Decision approving the agreement also approved the one time advance of $250,000 out of the $3.2 million to offset the costs of exploring the feasibility of projects including product and market research.

3.53 The major terms and conditions of the agreement were as follows:

- The offer will take the form of a purchase by BDI of preferred shares in the amount of $3.2 million which will be forgiven over a specific time period if certain conditions are met;
- Funds will be advanced at the rate of 75 percent of project costs requiring the company to expend $4.2 million to take full advantage of all the funds;
- Funds are to be advanced on an as required basis to finance the cash flow requirements of the capital cost of the project;
- A one time advance of $250,000 will be provided out of the $3.2 million to finance anticipated costs associated with exploring the feasibility of projects.

3.54 To implement this project, a separate company related to the client was established. Claims were submitted by this company through an accounting firm to BDI and disbursements were approved at 75 percent of the project costs. In addition, we were advised that

land purchases were verified, and site visits were conducted to confirm that land was developed and that specified equipment was obtained.

3.55 Total payments consisted of the initial advance of $250,000 plus 75 percent of the $3.9 million claimed by the client, for a total of $3.2 million.

3.56 The funds were disbursed between August 1998 and November 2000. Following is a breakdown of the amounts paid.

Advance to assess feasibility	$ 250,000
Management fees - related company	397,501
Land	611,085
Equipment	249,756
Development	1,587,547
Consulting	104,111
Total	$3,200,000

3.57 We noted that the agreement did not require the client to provide invoices to support the initial advance of $250,000 and none were requested.

3.58 Of the $3.9 million claimed, $1.4 million was based on invoices that originated with third party suppliers and service providers. The remaining $2.5 million or 64 percent was based on invoices from a related company. An accounting firm acting for the company submitted all invoices. However, their services were provided with an express statement that they did not audit, review, or attempt to verify the accuracy or completeness of the information submitted to them by the company. In other words, an audit of the information was not performed by the accounting firm or BDI.

3.59 Normally copies of invoices are persuasive evidence that the funds were spent in accordance with the terms of the agreement. However, in this instance where the majority of invoices are from a related company, we would expect PEI Business Development Inc. to take additional measures to substantiate that the expenditures were made in accordance with the terms and conditions of the Agreement. This could involve requirements such as an audited statement of project expenditures, and payment based on the establishment of an upper limit on the development costs per acre. In addition, a final claim summary of projects costs should be signed by the client,

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certifying that costs were incurred in accordance with the terms and conditions of the agreement.

3.60 We intend to do further work in this area and make specific recommendations to BDI to improve control and accountability over the release of funds for projects of this nature.

Recommendations

3.61 All monitoring agreed to in the letter of offer should be carried out. When it becomes evident that a loan outstanding is at risk, a review of the account should be conducted and action taken to mitigate the loss to the Agency.

3.62 Changes in the terms and conditions of the loans should be approved at the same level of authority as required for the original loan approval.

3.63 For all loans, terms and conditions in the letter of offer should be followed.

Reporting of Arrears

3.64 In managing a loan portfolio there is certain standard statistical information that is normally monitored. Information is obtained and regularly reported on the total dollars outstanding and the number of clients in the loan portfolio, the number and amount of outstanding loans in arrears, the ratio of these amounts to the total loan portfolio, and the number of applications processed in the period.

3.65 The number and amount of loans in arrears is a key performance indicator and is monitored by the Agency and reported to the Board of Directors, the Ministry and is included in the annual report to the Legislature. The Board of Directors receives a monthly arrears report consisting of a summary sheet with information on accounts in arrears as well as a comparative sheet showing month to month and year to year trends. When an account is past due and collection efforts have been unsuccessful, the account is classified as non-current. These non-current accounts are the worst of the non-performing accounts, however, they are still loans receivable to the Agency and are reported as such in the audited financial statements.

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We noted that the arrears balances in the comparative arrears report do not include the accounts classified as non-current.

3.66 Deducting the non-current balances from the arrears total does not provide complete information. In addition, the ratios reported by the Agency are affected by deducting the non-current accounts from the arrears. For example, at March 31, 2000 the balance owing on accounts in arrears as a percentage of the total loans outstanding was reported as 2.7 percent whereas the balances owing on accounts in arrears, including the non-current accounts, as a percent of the total loans outstanding was 4 percent.

3.67 The arrears report is generated by the computerized loan accounting system. We noted that for working capital loans the account is not picked up as being in arrears until the loan maturity date has passed and the full amount of the loan is due. This is appropriate in some cases, for example, under several industry development programs interest is allowed to accrue until marketable production is achieved. However, in some cases, monthly interest payments are required by the terms agreed to in the loan. For one loan we reviewed, monthly interest was not paid as required and the account was not recorded by the system as being in arrears even though accrued interest at March 31, 2000 amounted to $169,000. Although the Agency was aware the interest was not paid, the account was not reported in the arrears report.

Recommendations

3.68 For monitoring and reporting purposes, non-current loans at the PEI Lending Agency should be included in the arrears balance in the Comparative Arrears Report.

3.69 The loan accounting system should be revised to allow identification of working capital loans in arrears.

Central Default Registry

3.70 A Treasury Board Policy exists which directs that "unless otherwise approved by Treasury Board, Government departments, Crown corporations, and reporting entities involved in providing loans/financial assistance are not to provide further assistance to those individuals or corporations who have not made satisfactory arrangements on prior indebtedness due the government." To assist departments in determining if a default is on record before providing

assistance, a central registry was to be established and maintained with complete and accurate information. We noted that the central default registry has been established by the Lending Agency but it is not up to date as it pertains to departments and other agencies. The policy has not been implemented across government and departments which are required to report defaults have not done so.

Recommendation

3.71 The information maintained in the Central Default Registry should be current and complete, including information from all applicable departments and agencies of government.

Loan Collections

3.72 We looked for the Agency to have regular systematic collection procedures with documentation on file to support the collection efforts undertaken including any decisions taken regarding legal action, extension of due dates, and ultimately write-off of the debt. We found that although the collection procedures are not formally documented in a procedure manual, each account manager is responsible for a specific portfolio and must prepare a quarterly report to the CEO on problem accounts. The account managers work with the clients to minimize possible losses to the Agency and action taken on collection efforts is documented.

Business Development Inc. Loans

3.73 Although the PEI Lending Agency was established to provide government's lending services, we noted PEI Business Development Inc. reported $4.9 million in loans receivable at March 31, 2000. We were advised that it is not the intention for BDI to establish its own lending section, but that loans were provided based on unique circumstances. Discussions are underway to transfer some of these loans to the administration of the PEI Lending Agency.

3.74 We noted one of the outstanding loans at BDI amounted to $1.7 million at March 31, 2000 and subsequent to year end advances were made to bring the total loan to $2.4 million. Government agencies (Enterprise PEI to 1999 and Business Development Inc. 1999 and later) have provided financial assistance to this client each year since 1994. The total amount of government support provided amounts to $4.9 million consisting of $2.9 million in loans (BDI $2.4 million and Lending Agency $0.5 million), $700,000 in preferred shares and the remainder of $1.3 million in grants.

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3.75 The assistance provided in this case has been approved at the appropriate level. However, it illustrates the difficulty government faces where it provides assistance to new businesses to nurture them to profitability. Many factors must be considered where an extensive investment has already been made by government in a business. These types of loans must be decided on the unique circumstances related to each particular case. However, there appears to be an absence of guidelines or benchmarks of levels of risk or potential returns to guide decision makers in such cases.

3.76 Since it is government's objective to stimulate economic development and job and wealth creation, information on the total amount invested by government in the enterprise, the number of jobs expected to be created and the resulting economic impacts is necessary to determine whether or not to continue to support such businesses. We recognize that every case is unique and that sound business judgement is required. Although information was provided to decision makers in this case, there has to be a limit to the risk and potential loss to the taxpayers.

Recommendation

3.77 Guidelines should be established for economic development initiatives to assist decision makers in determining the maximum exposure and risk government is prepared to take with any one client.

Guarantees

3.78 As indicated in **Exhibit 3.5**, Provincial guarantees have increased dramatically in recent years. Significant losses were sustained in the early 1990s and as a result, government substantially reduced the loan guarantees outstanding to a low in 1996 of $2.7 million. This trend has been reversed over the last four years. Loan guarantees issued through the Department of the Provincial Treasury amounted to $14.8 million or 53.7 percent of the total loan guarantees outstanding. The bulk of this amount relates to debentures guaranteed for the Charlottetown Area Development Corporation and the Summerside Regional Development Corporation. The majority of loan guarantees to external parties are provided through PEI Business Development Inc.

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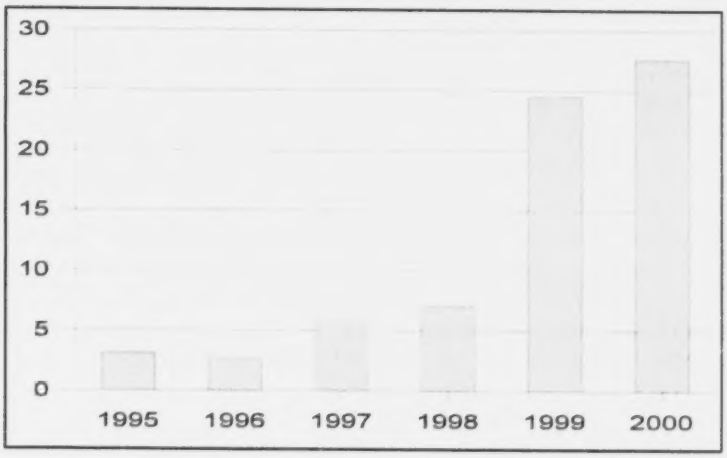
EXHIBIT 3.5
TOTAL PROVINCIAL GUARANTEES
1995-2000
(Millions)



3.79 At March 31, 2000 PEI Business Development Inc. had outstanding contingent liabilities of $12.4 million of which $3.6 related to guaranteed loans under the Entrepreneur Loan Program and $8.8 related to other loan guarantees. Subsequent to year end, loan guarantees on two revolving lines of credit for two seafood processors were renewed for $6.5 million bringing the total outstanding to $18.9 million.

3.80 We examined all of the large outstanding guarantees as well as a number of guarantees provided under the Entrepreneur Loan Program. For each guarantee examined we looked for a project evaluation in support of the decision, appropriate authorization, adherence to related policies, security in place, monitoring of the terms and conditions as required by the letter of offer, as well as appropriate financial statement disclosure.

3.81 Management advised us that all loan guarantees provided by BDI require the approval of both the Chief Executive Officer and the Deputy Minister of Development and Technology. The signing authority policy carried over from Enterprise PEI and in place at BDI requires that any guarantee over $1 million be submitted for approval by Executive Council. We noted two instances where loan guarantees

totalling $4.4 million were provided without the required Executive Council approval.

3.82 In 1999 a seafood processing company requested assistance to cover operating losses caused by volatility in the price of lobsters following the amalgamation of several large processors. Executive Council approved a loan guarantee for a $3 million line of credit to be used by the company to finance acquisition of raw product. The guarantee was in place from May 11, 1999 to February 28, 2000, when it expired. The $3 million guarantee was subsequently approved for the 2000-2001 operating season by the CEO. There was no Treasury Board or Executive Council approval of this new guarantee.

3.83 A fishing cooperative with a history of financial difficulty needed a line of credit for the 2000-2001 operating year. BDI provided a short term loan guarantee in the amount of $1.4 million. There was no Treasury Board or Executive Council approval for this guarantee.

3.84 Treasury Board policy requires that an administration fee of one percent per annum be charged for loan guarantees provided by the Department of Provincial Treasury. For two large loan guarantees provided by BDI we noted that an administration fee was required as a condition of approval by Treasury Board. The fees, however, were not charged as required for one guarantee of $3.5 million extended July 1999 to February 2000, and another guarantee of $3 million extended May 1999 to February 2000. Administration fees were charged for two smaller guarantees provided by BDI.

3.85 The Entrepreneur Loan Program (ELP) provides loan guarantees to lending institutions which have loaned up to $25,000 for a 5 year period to qualifying recipients. The process for approval of ELP loan guarantees has been designed to simplify the process for financial institutions and therefore encourage the use of the program. The financial institution conducts the application process with the client and in most cases requests approval for a guarantee from BDI by telephone. The ELP Manager then issues an approval letter to the financial institution confirming the verbal approval, and requesting a signed application/loan agreement, a business plan, security checklist/personal guarantee, and proof of the client's 30 percent equity in the project. Business Development Inc. pays an administration fee to the financial institution at the time the letter of approval is issued. In some cases the financial institution does not

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provide the documentation as requested which makes it difficult to determine if the funds were advanced in accordance with the terms and conditions of the program.

3.86 Our review of 30 loan guarantees under this program revealed that 12 did not have adequate documentation, four of which had no application or business plan making it impossible to determine eligibility. The remaining eight files each lacked proof of the required equity, a business plan or an application. A business plan, application and equity are important factors in determining both the eligibility and expectation of business success.

3.87 The purpose of the ELP is to assist in financing new business or specific expansion to existing business. We noted two files where the amount loaned was to support ongoing operations and therefore should have been ineligible.

Recommendations

3.88 Loan guarantees over $1 million, provided by BDI, should be approved by Executive Council in accordance with the signing authority policy.

3.89 Business Development Inc. should establish a policy regarding the application of administration fees for loan guarantees.

3.90 Where Treasury Board specifically requires administration fees on loan guarantees they should be collected.

3.91 For Entrepreneur loan guarantees BDI should not pay the administration fee to the financial institution until the required documentation has been received.

3.92 The criteria for the Entrepreneur Loan Program should be followed.

Accountability Information

3.93 For reporting on performance to be useful and effective, it must be carried out in the context of defined strategic objectives. Agreement should be reached on the indicators that will be used in assessing the extent of accomplishment of these objectives.

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Reasonable targets must be set for achievement and actual performance should be measured, compared against the targets, and reported with explanations for any variances.

3.94 We examined performance reporting at four levels; Chief Executive Officer, Board of Directors, Executive Council, and Legislature/Public.

3.95 We looked for financial information to be provided on a regular basis to the Board of Directors with comparisons of actual to budget. We expected information to be reported on the activity level of the organization with comparisons to established performance targets. We also examined how compliance to regulations, policies and procedures were monitored and reviewed and exceptions reported; and we looked for summary performance information to be made available to Executive Council on a periodic basis.

PEI Lending Agency

3.96 We noted that the Lending Agency does not have performance targets established in a documented operational plan. However, in developing the budget, expansion of the portfolio is included in terms of both the dollar value and activity level. While these are not reported as performance targets, they do provide a foundation for the budget and an organizational objective to which efforts are directed.

3.97 We noted that monthly financial statements with comparisons to budget, and monthly arrears reports are provided to the CEO of the Lending Agency who presents these to the Board of Directors. Regular reports are prepared on the number of applications received, processed and pending and this information is also reported to the Board of Directors.

3.98 In 1999 the authorization level of the Board of Directors of the PEI Lending Agency was increased from $1.5 million to $2.5 million on the condition that a quarterly report on loans over $1 million be provided to Treasury Board. This quarterly report has been provided as required.

3.99 In accordance with the Financial Administration Act, we looked for the Lending Agency to provide an annual report to the Legislature indicating goals and results achieved during the period. At the time of our fieldwork the 1999 annual report of the Lending

Agency was available. Information on a number of performance measures are included in this report.

PEI Business Development Inc.

3.100 In PEI Business Development Inc. the type and duration of assistance is more varied. While we concentrated our work on loan guarantees many files included information on other types of assistance provided. We noted that the CEO of BDI is provided with a monthly report which includes financial statements as well as detailed information on the assistance provided to date under each program administered by the corporation. Although the Board of Directors of BDI had not met on a regular basis at the time of our audit, we were advised that the monthly financial information is provided to the Deputy Minister with activity information on request. At BDI all loans and guarantees provided in excess of $1 million are required to be approved by Executive Council, however, summary information is not provided on a regular basis.

3.101 A documented plan is in place at BDI with objectives and an action plan for implementation. A wide variety of information is available to senior management and the Ministry which relates to the activities of the organization. However, this information is generally not summarized and reported externally on a regular basis. A client database has been developed which can provide the approved assistance and actual amounts paid out by program, industry sector and client. In addition, macro indicators of success can be measured such as the unemployment rate, GDP, and trends in export growth. This information is useful and relevant in assessing job and wealth creation.

3.102 The challenge is for senior management of BDI to select a set of indicators they believe to be most relevant in measuring the performance of the corporation. Both BDI and the Lending Agency need to relate the actual performance of the organization to clearly defined expectations established at the outset.

3.103 At the time of our audit, the 1999 annual reports were available. Business Development Inc. was not established until November 1999, however, we did note that the former organization, Enterprise PEI, did prepare a report for 1998-99.

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Recommendations

3.104 Summary information on outstanding loans and loan guarantees at BDI should be provided to Executive Council on a periodic basis.

3.105 Goals and results achieved should be more clearly reported for lending activities.

MANAGEMENT RESPONSE

3.106 We discussed our report with management and they agreed to address our recommendations.

Recommendations

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MANAGEMENT RESPONSE

3.106 We discussed our report with management and they agreed to address our recommendations.

4. GOLF LINKS PRINCE EDWARD ISLAND INC.

BACKGROUND

4.1 Golf Links Prince Edward Island Inc. (Golf Links) is a wholly-owned subsidiary corporation of Tourism PEI, which is a Provincial Crown corporation. Golf Links was incorporated in 1998 as a private company under Part 1 of the Companies Act. The company is responsible for operating four golf courses on behalf of the Province. These courses are the Links at Crowbush Cove, Mill River Golf Course, Brudenell Golf Course and Dundarave Golf Course.

4.2 The total annual revenue of Golf Links for the year ended March 31, 2000 was approximately $4.5 million with expenditures of about the same amount. In the past year there was a net increase in capital assets of $1.3 million, primarily as a result of the purchase of maintenance equipment for Dundarave and power cars for each of the golf courses. Golf Links employs 180 persons at a cost of $1.8 million.

OBJECTIVES AND SCOPE

4.3 Our objective was to assess the management systems and practices in place at Golf Links Prince Edward Island Inc. The audit was conducted under the authority of Section 13 of the Audit Act. The financial statements of Golf Links were audited by a private sector firm of chartered accountants and, where appropriate, we relied on their work.

4.4 Our audit covered the 1999-2000 fiscal year. In addition, we reviewed practices and procedures in operation during the summer of 2000.

4.5 We performed our examination in accordance with the auditing standards of the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

4. Golf Links Prince Edward Island Inc.

OVERALL OBSERVATIONS

4.6 Golf Links PEI Inc. is a wholly-owned subsidiary of Tourism PEI, a Provincial Crown corporation, and is responsible for operating four golf courses on PEI. We examined a number of aspects of the governance and management of the organization. There are several governance issues that should be addressed related to documentation of major decisions in Board minutes as well as approval of Board policies and a corporate plan for the organization. We noted numerous instances throughout our audit where the controls and procedures over revenues and expenditures should be strengthened, particularly in the areas of promotional golf rounds, concession agreements, purchases, and inventory records.

4.7 One of the major undertakings of Golf Links was the purchase of used equipment for Dundarave from the Developer. After reviewing documents and obtaining explanations we concluded that an appropriate process was not in place for acquiring the equipment at the most economical cost. We also provide some updated information on Golf Links involvement with the Brudenell Golf Academy and the ownership of the Dundarave Golf Course.

4.8 In summary, the management of the Provincial golf courses was moved from departmental operations to a corporate structure in the public sector. This demands changes in governance and management processes that the organization should address. At the same time, management has to tighten controls over revenues and expenditures.

DETAILED AUDIT OBSERVATIONS

Governance

4.9 All of the authorized and issued shares of Golf Links PEI Inc. are owned by Tourism PEI. Under this corporate structure, Golf Links has a Board of Directors which includes; the Deputy Provincial Treasurer, the Deputy Minister of Transportation and Public Works, the Chief Operating Officer of Tourism PEI, the Director of Tourism Development of Tourism PEI, and the Director of Corporate Services of the Department of Tourism. The Deputy Minister of Tourism is the Chief Operating Officer of Tourism PEI as well as the President of Golf Links, and is responsible to the Minister of Tourism.

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4.10 The Board of Directors is an integral part of the governance structure of a public sector corporation. Through the approval of Board policy, the Board provides strategic direction and guidance to management on the operation of the organization. We expected to find documented Board policies for Golf Links PEI Inc.

4.11 We found that except for a policy on signing authority approvals, there were no other policies approved by the Board of Directors. Management indicated that when Golf Links was established, it was expected to follow Treasury Board policies. Documented Board policies are important to guide the actions of all individuals in the organization to fulfill the objectives and purpose of Golf Links as set out in its Letters Patent.

4.12 There are a number of policies issued by Treasury Board that are relevant to various programs. These policies cover areas such as: budgeting and financial; purchasing; personnel management; capital projects; equipment; travel; and conflict of interest. We expected to find policies at Golf Links to cover these areas as well as policies unique to golf course operations.

4.13 The general management of Golf Links is the responsibility of a General Manager who reports to the President. Each of the golf course pro shops is managed by a permanent part-time supervisor and each golf course operated by Golf Links has a full-time superintendent. The supervisors and superintendents report to the General Manager.

Recommendation

4.14 The Board of Directors of Golf Links PEI Inc. should formally adopt policies for the operation of the Corporation including any applicable Treasury Board policies.

Planning

4.15 A clearly documented plan is an important part of managing any organization. It communicates the Board and management direction to staff so that they know what the organization is expected to achieve with the resources entrusted to it. A plan is needed to indicate clearly the actions necessary to achieve the Corporation's objectives.

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4.16 There are a number of elements required to help ensure that an adequate planning process exists. These include:

- documented objectives, policies, guidelines, and delegation of responsibilities;
- documented strategies and operational plans which are reviewed and updated regularly; and
- a process where programs and activities are periodically reviewed to ensure they continue to support the overall objectives of the Corporation as well as the Department of Tourism.

4.17 Golf Links does not have documented strategic or operational plans. There are some elements of a strategic plan such as a strategy statement approved by the Board of Directors. There are also documented objectives. However, these are not included in a plan detailing the programs and activities directed toward the strategy and achievement of objectives. A business plan was developed in 1995 at which time the golf courses were managed by the Department. However, that plan is five years old and a business plan has not been developed and approved by the Board of Directors for Golf Links. Management indicated that their operational plan can be interpreted from their budget submission. The budget contains elements of an operational plan but it is not complete and does not convey the objectives and results to be achieved by the Corporation.

4.18 The objectives and purposes of Golf Links are set out in its Letters Patent. The main ones are summarized as follows:

- to manage, operate and market Provincially-owned or leased golf courses in a businesslike fashion;
- to develop new golf product on behalf of PEI tourism; and
- to develop and promote PEI as a premier golf destination.

These objectives are very broad and establish the general purpose and direction of the organization. Specific goals have not been documented in an operational plan.

Recommendations

4.19 Golf Links should prepare operational and strategic plans which at a minimum require:

- **identification of the entity's strategic and operational goals and objectives;**
- **allocation and linkage of these goals and objectives to specific programs;**
- **identification of results to be achieved by program and the measures to be used to assess their achievement;**
- **description of procedures to monitor achievement of intended results; and**
- **reporting of the results achieved with explanations and planned action for major variances from goals and objectives.**

4.20 The strategic and operational plans should be approved by the Golf Links Board of Directors and the Minister of Tourism.

Revenue and Expenses

4.21 The audited financial statements of Golf Links for the year ended March 31, 2000 report the following:

Revenue	$4,500,000
Expenses	(4,622,000)
Other income	131,000
Net earnings	$ 9,000

4.22 Management reports which are prepared for internal use by the Corporation show revenue and expenses by golf course. The expenses for Dundarave include a lease expense of $579,000 in accordance with the lease agreement with the Developer. The Links at Crowbush Cove, Mill River Golf Course, and Brudenell Golf Course are rented from the Province at no cost. A summary of the internal management reports is shown in **Exhibit 4.1**.

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SUMMARY OF REVENUE AND EXPENSES
For the Year Ended March 31, 2000

	Mill River	Crowbush	Brudenell	Dundarave	Head Office	Total
Revenue	$821,000	$1,896,000	$1,147,000	$ 606,000	$ 30,000	$4,500,000
Expenses	715,000	1,135,000	869,000	1,210,000	$562,000	$4,491,000
Net Earnings	$106,000	$ 761,000	$ 278,000	$(604,000)	$(532,000)	$ 9,000

4.23 As noted in **Exhibit 4.1**, head office expenses of $562,000 were not allocated to specific golf courses. These expenses included payroll, advertising and promotion, interest and bank charges, travel, amortization of capital assets, and gain/loss on the sale of capital assets. In order to have an accurate picture of the cost to operate each golf course, all revenue and expenses should be allocated. Management indicated the current statements were for internal use and adequate for their purposes. An accurate allocation of all revenues and expenses is necessary to ensure complete financial information is available on each golf course.

Recommendations

4.24 To more accurately reflect the net profit or loss of each course, all revenues and expenses should be allocated to specific courses.

4.25 Revenues and expenses by golf course should be included in the Annual Report to the Legislature.

Purchasing

4.26 Although there is no Board policy on purchasing, management informed us that it was their intention to follow the requirements of the Public Purchasing Act. The Public Purchasing Act requires a minimum of three quotes for purchases of supplies greater than $1,500; and public tenders are required for purchases greater than $25,000.

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4.27 In any organization the following purchasing controls are important: authorization of requisitions and purchase orders; segregation of purchasing from receiving and accounts payable; retention of receiving records; invoices checked to receiving records and purchase orders; freight bills matched to purchases; discounts taken; and approval of purchase orders independent of purchasing staff.

4.28 We reviewed a sample of expenditures to ensure adequate systems of control were in place and the requirements of the Public Purchasing Act were met. We noted the following problems:

- Control procedures covering areas such as ordering and receiving supplies, verification of invoices, inventory control procedures and record retention practices were not documented. According to management they were verbally communicated to golf course staff. For an organization with expenses of over $4 million the absence of written procedures is not acceptable.
- A number of items costing over $1,500 were purchased without obtaining the minimum of three quotes as required under the Public Purchasing Act. These included purchases of building supplies, score cards, maintenance supplies, sand, and pamphlets. The total value of these purchases was over $25,000.
- The lowest tender was not used for a fertilizer purchase of $60,752. The successful tender was chosen because it included a higher quality fertilizer. The difference was $10,000. If higher quality fertilizer is desired, the specifications put out for tender should indicate the higher quality.
- There is a lease agreement for the rental of the Mill River Pro Shop for an annual fee of $2. We noted a payment of $13,000 was made to the lessor in relation to this lease. There was no breakdown of this amount and no back-up to support the invoice of $13,000. We were advised that the amount paid was to cover operating costs such as heat and lights originally paid by the resort operator. Calculations to support these costs should be provided by the resort operator.

Recommendations

4.29 Control procedures for purchases should be established, clearly documented, and communicated to indicate the responsibilities and procedures for pro shop supervisors, course superintendents, accounting staff and signing officers. These procedures should be approved by senior management.

4.30 Billings for Mill River Pro Shop operating costs should be itemized and the details documented.

Pro Shop Merchandise

4.31 The pro shops generated sales revenue of $807,000 in 1999-2000. The merchandise which was sold cost $544,000. Each fall the pro shop supervisors order the inventory for resale in the next golf season directly from the manufacturers. These goods are not tendered because the brand-name manufacturers are considered sole source suppliers. Merchandise purchases are coordinated between the four courses to ensure volume discounts are utilized.

4.32 We could not verify that Golf Links paid the negotiated prices for merchandise acquired at The Links at Crowbush Cove or Brudenell/Dundarave, because the support for the purchase orders which detailed the individual items and corresponding negotiated prices was not retained by the pro shop supervisors. While a purchase order existed for the total amount, lists containing negotiated prices for individual items were not retained.

4.33 The value of inventory at the end of the 1999-2000 fiscal year was $101,000 as determined by the actual physical count. We were informed that adjustments were required because the physical count did not agree with the quantities recorded in the perpetual inventory records. A copy of the perpetual records, prior to the adjustments, was not retained. Therefore, we were not able to determine the amount of adjustments and the extent of inventory losses. Normally, in order to control inventory and provide documentation to support adjustments, perpetual records are retained.

Recommendations

4.34 Management should ensure the documents supporting merchandise purchases are retained.

4.35 Pro shop supervisors should ensure that perpetual inventory records are retained and reconciled to actual counts at year end.

Equipment Acquisitions

4.36 During the 1999-2000 fiscal year the Corporation purchased capital equipment costing $1.5 million. This included purchases of equipment for the maintenance of Dundarave and electric power cars.

Dundarave Equipment

4.37 Golf Links paid $762,629 for equipment during the year. Of this amount $497,629 was for used equipment purchased from the Developer of Dundarave. The remaining $265,000 was for additional new equipment to maintain the golf course.

4.38 In a letter dated October 30, 1998 signed by the President of Golf Links PEI Inc. it was agreed the Corporation would purchase used equipment from the Developer. This letter was signed subsequent to the original agreement to lease Dundarave. There was no documentation in the minutes of the Board of any decision approving this purchase.

4.39 The letter included a list of the equipment which was to be used by the Developer in the grow-in period of Dundarave and then purchased by Golf Links for ongoing maintenance. The letter also stated that the purchase price of the equipment was to be the fair market value of the equipment but not less than 90 percent of the original purchase price.

4.40 Our observations related to the purchase of used equipment are noted below.

- The sequence of events leading to the purchase resulted in a number of assessments of the value and need of various pieces of used equipment that were used by the Developer during the grow-in period.

Recommendations

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Pro Shop Merchandise

4.31 The pro shops generated sales revenue of $807,000 in 1999-2000. The merchandise which was sold cost $544,000. Each fall the pro shop supervisors order the inventory for resale in the next golf season directly from the manufacturers. These goods are not tendered because the brand-name manufacturers are considered sole source suppliers. Merchandise purchases are coordinated between the four courses to ensure volume discounts are utilized.

4.32 We could not verify that Golf Links paid the negotiated prices for merchandise acquired at The Links at Crowbush Cove or Brudenell/Dundarave, because the support for the purchase orders which detailed the individual items and corresponding negotiated prices was not retained by the pro shop supervisors. While a purchase order existed for the total amount, lists containing negotiated prices for individual items were not retained.

4.33 The value of inventory at the end of the 1999-2000 fiscal year was $101,000 as determined by the actual physical count. We were informed that adjustments were required because the physical count did not agree with the quantities recorded in the perpetual inventory records. A copy of the perpetual records, prior to the adjustments, was not retained. Therefore, we were not able to determine the amount of adjustments and the extent of inventory losses. Normally, in order to control inventory and provide documentation to support adjustments, perpetual records are retained.

Recommendations

4.34 Management should ensure the documents supporting merchandise purchases are retained.

4.35 Pro shop supervisors should ensure that perpetual inventory records are retained and reconciled to actual counts at year end.

Equipment Acquisitions

4.36 During the 1999-2000 fiscal year the Corporation purchased capital equipment costing $1.5 million. This included purchases of equipment for the maintenance of Dundarave and electric power cars.

Dundarave Equipment

4.37 Golf Links paid $762,629 for equipment during the year. Of this amount $497,629 was for used equipment purchased from the Developer of Dundarave. The remaining $265,000 was for additional new equipment to maintain the golf course.

4.38 In a letter dated October 30, 1998 signed by the President of Golf Links PEI Inc. it was agreed the Corporation would purchase used equipment from the Developer. This letter was signed subsequent to the original agreement to lease Dundarave. There was no documentation in the minutes of the Board of any decision approving this purchase.

4.39 The letter included a list of the equipment which was to be used by the Developer in the grow-in period of Dundarave and then purchased by Golf Links for ongoing maintenance. The letter also stated that the purchase price of the equipment was to be the fair market value of the equipment but not less than 90 percent of the original purchase price.

4.40 Our observations related to the purchase of used equipment are noted below.

- The sequence of events leading to the purchase resulted in a number of assessments of the value and need of various pieces of used equipment that were used by the Developer during the grow-in period.

- The letter of agreement with the Developer committed Golf Links to an arrangement to purchase used equipment at the greater of 90 percent of the purchase price of the equipment and fair market value.
- There was no analysis performed to justify agreeing to a purchase price of 90 percent of the original price as agreed to in the letter. Individuals in the golf equipment industry indicate that a value of 70 percent after the first year would be appropriate for normal wear and tear, and under grow-in conditions would be less. Golf Links management indicated that most of the equipment was less than 1 year old and the 70 percent value was not applicable.
- Golf Links had tendered prices for some of the equipment purchased from the Developer. According to the tendered prices, Golf Links purchased used equipment from the Developer for $339,349 which they could have purchased new for $348,892.
- The signing authority policy requires approval by the Board of Directors and Treasury Board. Minutes of the Board of Directors as well as Treasury Board indicated they were aware of the transaction but did not give specific approval of it.
- The review by Golf Links staff indicated that the value of used equipment to Golf Links based on condition and need was $315,182.
- The price paid to the Developer did not include sales tax of $50,000 and this amount has not been remitted by Golf Links to the Province.

4.41 In the final analysis, Golf Links paid $497,629 plus interest of $10,600 for used equipment obtained from the Developer. This included equipment agreed to in the original letter of agreement plus additional equipment. The purchase price was determined by assigning rates to different categories of equipment. This resulted in over $360,000 of used equipment being purchased based on 90 percent of the original cost to the Developer.

Recommendations

4.42 To help ensure acquisitions are made at the most economical cost, equipment purchases of this magnitude should be tendered in accordance with the Public Purchasing Act.

4.43 Equipment purchases should be approved by the Board of Directors and Treasury Board in accordance with the signing authority approval levels established in Board Policy.

Golf Cars

4.44 To update and convert the fleet to electric cars at the existing three Provincial golf courses and obtain cars for the new Dundarave course, 220 power cars were purchased over two fiscal years. The total cost was $915,618 less a trade-in value for 130 cars of $206,520 resulting in a net cost of $709,098. This purchase completed the plan to have 60 cars at each of The Links at Crowbush Cove, Brudenell, and Mill River golf courses and 40 cars at Dundarave.

4.45 A summary of events related to the purchase of the golf cars is as follows.

- In April 1998 Golf Links issued a request for proposals for 220 golf cars from the three suppliers in the Maritime Provinces.
- In June 1998 the proposals were evaluated based on criteria dealing with supplier experience, cost, product design, quality, ease of use, reliability, warranty, and service.
- The supplier with the highest score, based on the evaluation criteria, but not the lowest price, was awarded the contract in June 1998. According to correspondence between the supplier and Golf Links the cars were expected to be delivered to Crowbush in September 1998, Mill River and Brudenell in April 1999, and Dundarave in June 1999.
- In March 1999 Treasury Board approved the capital plan of Golf Links which included the purchase of the golf cars. The signing authority policy of the Board of Directors requires Treasury Board approval as well as Board of Director approval for capital acquisitions over $100,000. Treasury Board approval should have been obtained before the contract with the supplier was awarded in June 1998.
- Because the facilities to store and charge electric golf cars at Brudenell and Dundarave were not ready, the golf cars that were purchased in July 1999 were not delivered, and Golf Links had to rent gas powered golf cars for the 1999 season. The supplier who had the contract to supply the electric cars rented the gas powered cars to Golf Links. The supplier's invoice of $33,750 for the rental of the cars did not include any documentation to support

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the amount charged. Proper documentation would have included a signed rental agreement, a description of the transaction showing the number and types of cars, rates, condition of cars, and insurance provisions.

Recommendations

4.46 Treasury Board approval should be obtained, as required in the Golf Links signing authority policy, before purchase contracts are entered into.

4.47 Adequate supporting documentation, explaining the amounts charged, should be obtained before invoices are paid.

Revenue Control

4.48 Golf Links collects revenues at each of the golf course pro shops. Revenue is collected for green fees, memberships, car and club rentals, merchandise sales, and concessions. In 1999-2000 the Corporation collected $4.5 million. A distribution of revenues by golf course is included in **Exhibit 4.2**.

EXHIBIT 4.2
SUMMARY OF REVENUE
1999-2000

	Mill River	Crowbush	Brudenell	Dundarave	Head Office	Total
Green Fees	$402,000	$1,090,000	$611,000	$429,000	-	$2,532,000
Memberships	119,000	88,000	184,000	18,000	-	409,000
Golf Shop	156,000	430,000	180,000	41,000	-	807,000
Car Rentals	114,000	195,000	119,000	111,000	-	539,000
Other Rentals	31,000	45,000	54,000	6,000	-	136,000
Concessions Revenue	-	47,000	-	-	-	47,000
Interest Income	-	-	-	-	30,000	30,000
Total Revenue	$822,000	$1,895,000	$1,148,000	$605,000	$30,000	$4,500,000

4.49 We reviewed the processes used to establish fee rates and ensure revenues are collected and deposited on a timely basis. According to the General Manager, Golf Links' objective for revenue is maximization. The General Manager also indicated that rates are set to be comparable with golf courses of similar quality in the other Maritime provinces. Golf Links receives information from the Atlantic Canada Golf Operations Survey which includes average

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green fee rates, average membership rates for various categories, and other revenue information.

4.50 The current process to set the rates for a golf season requires an annual review of the rates by the General Manager, who will suggest rates for the following season based on other similar courses in the Maritime provinces. The rates are finalized by the Board of Directors of Golf Links and submitted to the Minister for approval.

4.51 Revenues are collected at each of the golf courses and balanced on a daily basis. We reviewed the system for controlling revenues and our observations are summarized as follows:

- The golf courses will accept Golf Links passes which are signed by the Minister, the Deputy Minister, the Director of Tourism Development or the General Manager of Golf Links. This is in accordance with the Guidelines for Complimentary Golf Passes which were established in 1995. These guidelines were not updated or approved by the Board of Directors of Golf Links.
- There are also "promotional rounds" which are free and authorized verbally by Golf Links management for employees, golf professionals and the media, as well as practice rounds for tournaments. To August 14 of the 2000 golf season there were 46 Golf Links passes and 158 promotional rounds processed at The Links at Crowbush Cove. At Mill River there were 17 Golf Links passes and 104 promotional rounds for the same period. Brudenell and Dundarave golf courses also have promotional rounds and Golf Links passes but their usage is not recorded. Given the number of promotional rounds there needs to be improved controls over the issuance and recording of these rounds.
- Every golfer who goes on a Provincial golf course is supposed to be recorded by the starter on a daily booking sheet. There was no reconciliation of the persons who teed off at Brudenell, Dundarave or Mill River golf courses with the number of rounds recorded in the pro shop. These pro shops do not retain the daily booking sheet which would be useful for reconciling the rounds played by members, green fees collected and vouchers used on a daily basis.
- There is currently no concession agreement in place for Brudenell/Dundarave or Mill River golf courses even though canteens and beverage carts are currently in use by the resort operator. This represents a loss of revenue to Golf Links.

According to the President of Golf Links an agreement has been negotiated but not documented for Brudenell/Dundarave. While not totally comparable, the concession revenue for the Links at Crowbush Cove was $47,057 in 1999-2000. The resort lessor at Mill River had a license to provide food and beverage service to the golf course. This license expired in 1993 and has not been renewed but the resort operator continues this service.

Recommendations

4.52 All promotional rounds should be approved by the General Manager. A list of all participants in promotional rounds should be submitted to the President of Golf Links with the reason for granting that round. The cost/benefit of granting promotional rounds should be assessed and submitted to the Board of Directors.

4.53 All rounds played at the golf courses should be recorded on the daily booking sheet. This sheet should be reconciled to the computer system on a daily basis to ensure all rounds are recorded and accounted for.

4.54 Concession agreements should be finalized for Brudenell, Dundarave and Mill River golf courses as soon as possible.

Dundarave Update

4.55 In our 2000 Annual Report to the Legislative Assembly, we reported on the decision to lease the Dundarave Golf Course from private developers. In 1999-2000, the first season of operation, Dundarave lost $604,000 based on revenues of $606,000 and expenditures of $1,210,000 which includes lease payments to the Developer of $579,000. The required lease payment of $635,000 was reduced by $56,360 in accordance with the Operations/Management Agreement, because the golf course was not ready for play on July 1, 1999.

4.56 The budget for 2000-2001 indicates Dundarave is expected to earn a small profit of $27,000 based on revenue of $1,601,000 and expenditures of $1,574,000. The unaudited operating results to September 30, 2000 indicate Dundarave is forecast to incur a loss of $327,000 because revenues were lower than expected.

4.57 The Developer was responsible for construction deficiencies for the initial 12 months of operation. A golf course consultant was hired by Golf Links and a list of deficiencies was prepared as of November 1999. These deficiencies were expected to be corrected by June 15, 2000 at the Developer's expense. According to the President of Golf Links some of the deficiencies have been corrected and any outstanding deficiencies will be corrected and verified by the golf course consultant after the 2000 golf season.

4.58 Golf Links provided maintenance personnel and equipment to maintain the Brudenell Golf Academy which includes a nine hole executive golf course and was owned by private interests. There was no documented agreement in place to allow for the recovery of maintenance expenditures. Golf Links collected $20,000 for 1999-2000 and has invoiced the Academy $40,000 for 2000-2001.

4.59 At the time of writing this report, an announcement had just been made that the Province was buying the Dundarave Golf Course for $6.95 million. In addition, it was announced that the Brudenell Golf Academy was being purchased by the Atlantic Tourism and Hospitality Institute. We plan to do audit work on these transactions.

Recommendations

4.60 Golf Links Prince Edward Island Inc. should ensure that all of the deficiencies identified by the golf course consultant have been corrected by the Developer.

4.61 A formal agreement should be signed with the Golf Academy to ensure all maintenance costs incurred by Golf Links are recovered.

MANAGEMENT RESPONSE

4.62 Management provided a response and took issue with a number of the observations and recommendations. Our review and follow-up of their concerns did not provide any new information that would cause us to change our audit observations and recommendations.

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5. CONSTRUCTION OF THE PROVINCIAL ADDICTIONS CENTRE

BACKGROUND

5.1 In February 1998 an Addiction Services Review, requested by Health and Social Services, recommended replacement or upgrading of existing addiction treatment facilities. The replacement of the existing facility in Queens Region was considered a priority because of health and safety concerns. In addition, the facilities in East Prince and Eastern Kings had limitations in their capacity to meet service requirements.

5.2 The Department of Health and Social Services announced plans in January 1999 to construct a new Provincial Addictions Centre at the former provincial orphanage site in Mt. Herbert. Construction of the facility began in July 1999 and staff moved in during March 2000. Actual costs were $3 million which is $200,000 less than the budget approved. The project was managed by the Department of Transportation and Public Works in accordance with Treasury Board's Capital Projects Management Policy.

5.3 The Centre has a 40-bed inpatient capacity and includes new services for women-specific, gambling, youth and family support programs. It is the primary Addictions Centre for Prince Edward Island and effective September 2000 accepts all inpatient admissions from across the Province. A number of addictions services programs continue to be delivered by each of the health regions such as day detox, assessment, and outpatient rehabilitation.

5.4 The building of a new Provincial Addictions Centre was part of a three-year plan developed as a result of the Addiction Services Review, to consolidate, reallocate and expand services.

OBJECTIVES AND SCOPE

5.5 In accordance with Section 13 of the Audit Act, we assessed the management practices and controls over the planning and construction of the Provincial Addictions Centre.

5.6 We reviewed the planning aspects of the facility design, and assessed the information presented to Treasury Board for project approval. The project was evaluated for compliance with Treasury Board's Capital Projects Management Policy including the acquisition of consulting services, tendering, payment control, and change order administration. All progress payments to the contractor were examined to ensure the approval of the architect was obtained, statutory declarations were in place and calculations were accurate. In addition, we interviewed staff of the Departments of Transportation and Public Works and Health and Social Services and reviewed documentation supporting each phase of the construction process.

5.7 We performed our examination in accordance with the auditing standards of the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL OBSERVATIONS

5.8 We have commented previously on a number of capital projects where key requirements of the Treasury Board Capital Projects Management Policy were not followed. We are pleased to report that our audit of the construction of the Provincial Addictions Centre found the key requirements of the Capital Projects Management Policy were followed and the project came in under budget. We encourage the Department of Transportation and Public Works and client departments to apply the same due diligence to future capital projects.

5.9 There were a couple of areas where improvements can still be made and we comment on these in the following paragraphs.

DETAILED AUDIT OBSERVATIONS

Project Approval

5.10 The Department of Health and Social Services commissioned an independent review of addiction services which was completed early in 1998. The Addiction Services Review report called for prompt relocation of Queens Addictions Services due to safety concerns, as well as a rationalization of detoxification services across the Province. In March 1998, Treasury Board directed the Department

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of Health and Social Services to develop a comprehensive provincial plan for the delivery of addictions services and, following acceptance of such a plan, to submit jointly with the Department of Transportation and Public Works a cost estimate for replacement facilities.

5.11 In accordance with the Capital Projects Management Policy, it is the client department which is responsible to provide details on program needs. The design of any new building should be supported with documented space requirements based on these needs after consideration of how the various spaces will be used to provide programs or services. The number and size of spaces required affects the square footage and cost of construction. We looked for documentation from the client department to explain space requirements included in the design.

5.12 In response to our inquiries at both the Department of Transportation and Public Works and the Department of Health and Social Services we were advised that a needs analysis document stating the reasons for a specific number of beds required at the new facility was not prepared. However, the documents presented to Treasury Board requesting the approval of the project did state that the proposed facility would consist of 40 beds which was consistent with the per capita national average at that time.

5.13 In October 1998 Treasury Board approved the construction of a 28,000 square foot addictions facility with budgeted costs of $3.2 million. It included approximately 32 individual offices or interview spaces, 40 inpatient detoxification or rehabilitation beds, and 10 meeting rooms for groups of various sizes.

Recommendation

5.14 A needs analysis explaining the reason for space requirements should be prepared and documented for all capital projects.

Change Orders

5.15 Change orders are used to document and authorize changes to the original contract specifications after the construction contract has been awarded. When a change to a construction contract is necessary the contractor requests a change to the contract price, the architect then determines whether the request is valid and evaluates the pricing.

The engineer in charge of the project at the Department of Transportation and Public Works will then assess whether the change should be approved for payment. Changes are summarized and signed off by the architect and the Department of Transportation and Public Works as owner. We examined each change order and traced a sample of the changes to supporting documentation. Generally the change order process was handled appropriately. However, we noted a few change order requests by the general contractor were not resolved as of September 2000 even though staff moved to the facility in March 2000. The outstanding changes totalled over $30,000 and although this amount is not large relative to the size of the project, the changes should have been resolved on a more timely basis.

Recommendation

5.16 The Department of Transportation and Public Works should ensure that change order requests are resolved on a timely basis.

MANAGEMENT RESPONSE

5.17 Management has submitted a written response to our report. The Department of Transportation and Public Works will attempt to have client departments develop a needs analysis that indicates project requirements and justification. In addition, the Department will attempt to finalize change orders on a timely basis.

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6. GOVERNMENT GRANTS - DEPARTMENT OF DEVELOPMENT AND TECHNOLOGY

BACKGROUND

6.1 The mandate of the Department of Development and Technology is to work in partnership with the private sector and communities to maximize sound community and economic development opportunities and to promote the use of technology by industry, communities, and government on Prince Edward Island.

6.2 The Department's strategic plan includes the following mission:

- to help strengthen and grow the economy of PEI through programs designed to encourage growth in existing PEI industries; and
- to strengthen rural communities by investing in human resource and financial resource development.

6.3 The Department administers the following grant programs in support of its mandate and mission.

Grant Programs	Expenditures 1999-2000
Community and Labour Development	$ 1,630,000
Economic Development Leadership Agreement	9,036,000
Technology PEI	1,713,000
Other	3,000
Total	$12,382,000

OBJECTIVES AND SCOPE

6.4 In accordance with Section 13 of the Audit Act we reviewed the systems in place for administering the grant programs delivered by the Department in the year ended March 31, 2000. Our objective was to assess the management practices in place for the delivery of the grant programs.

6.5 Our audit was conducted in accordance with the auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

6.6 The audit of each grant program consisted of interviews with program staff and a review of the program objectives. We also examined a sample of the project files for proper documentation and approvals. The documentation we examined included program brochures, applications, project approvals, funding agreements, supporting invoices, and monitoring reports.

6.7 We expected to find:

- grant programs with clearly defined goals, expected results, monitoring of performance and periodic evaluation;
- applications or proposals from prospective recipients that documented the purpose of the project, the amount of funding requested and the expected results;
- an approval process that documented project eligibility, funding decisions and authorization of payments; and
- signed funding agreements that defined the objectives, terms and conditions for funding.

OVERALL OBSERVATIONS

6.8 The Department paid $12.4 million in grants during 1999-2000. We observed a number of weaknesses in file documentation and payment procedures. Although the grant programs were typically directed toward general goals consistent with the mandate of the Department, there was insufficient information documented on the results which the Department expected to achieve by offering these grant programs. This information is essential for measuring program performance and would assist managers, government and legislators in assessing the overall impact, cost-effectiveness and continued relevance of the grant programs.

DETAILED AUDIT OBSERVATIONS

Community and Labour Development

6.9 The Community and Labour Development grant programs have general goals such as: assisting community-based organizations with capital projects, funding community-led efforts in strengthening rural communities, and increasing employment and revenue in craft industries.

6.10 The following grant programs were funded in 1999-2000.

Program	Number of Projects	Grants Paid
Regional Development Support	32	$ 738,000
Community Development Fund	27	730,000
Community Capacity	40	62,000
Craft Development	31	55,000
Craft Industry	12	45,000
Total	142	$1,630,000

6.11 Expected results or targets were not established for each program. With the exception of the recent Community Development Fund, the grant programs have been in place for a number of years and have not been formally evaluated.

Regional Development Support Program

6.12 The Regional Development Support Program assists community based organizations. Eligible projects tend to be capital construction proposals that support community-based economic development. Examples of projects funded include the Cardigan Fish Hatchery ($120,000), the Charlottetown Air Show ($25,000), the Tignish Culture and Heritage Centre ($88,000), and the Strathgartney Foundation ($50,000). Funding was also provided to projects which Department staff indicated had Island-wide benefits including; the Department of Education for Literacy and Adult Basic Education ($100,000), and UPEI for recruiting foreign students ($25,000).

6.13 We expected to find project files containing complete proposals, assessments, approvals, funding agreements and supporting claims. In many cases, we found little or no documentation to verify that the proposals had been assessed by program staff. The Department advised that analysis usually involves consultation with community groups which may not be recorded in the file.

6.14 The standard agreements used for the Regional Development Support Program states that the Province will adjust its contribution, if the project has been downsized, significantly altered or not completed. The client is also required to submit a final cost claim summary. We expected to find documentation that supported the final costs of each project funded. Copies of supporting suppliers' invoices were on file without a claim or similar document signed by the client verifying that they were in accordance with the agreement and not used to claim other funding. The Department normally made the final grant payment as long as suppliers' invoices totalling the Province's contribution were submitted. They did not require the submission of a final cost claim summary showing total costs of the projects as required by the agreements.

6.15 In addition, four files with grants totalling $165,000 did not have agreements setting out the terms and conditions of the grants.

Community Development Fund

6.16 The Community Development Fund is one of the Special Projects Funds established by the Financial Administration Act (FAA) Regulations. The goals of the Community Development Fund as defined in the FAA Regulations are to enhance community life; infrastructure; and employment opportunities in areas including, but not limited to education, technology, recreation and environment. To be eligible, projects must be community-based with broad support from the local community and have other confirmed funding partners for the balance of the funding. Grants are initially reviewed and recommended by the Community Development Officers of the Department. Proposals are then submitted for approval by the Community Development Bureau which includes the Ministers of Development and Technology, Education, Health and Social Services, and Fisheries, Aquaculture and Environment; as well as the approval of Treasury Board. Funds are then transferred to the Department for administration. Examples of projects funded are the

PEI Potato Museum expansion ($100,000), the extension of the Cavendish Boardwalk ($50,000), and the MacLure's Pond Development in Murray River ($100,000).

6.17 A grant of $41,500 was paid for the Black Marsh Trail Project without any record of invoices being received or examined by project officers before the payment was made. Subsequent to our audit we were advised that these invoices were received by the Department.

6.18 The standard agreement used for this program indicates that the Province will adjust its contribution if the project has been significantly downsized, altered or not completed. The client is also required to submit a final cost claim summary. We looked for documentation to support the final cost of each project. Again we found copies of supporting suppliers' invoices were on file, but there was no document signed by the client verifying that they were in accordance with the agreement and not used to claim other funding. The Department normally made the final payment as long as suppliers' invoices totalling the Province's contribution were submitted. The Department did not require the submission of a final cost claim summary, showing total project costs, as required by the agreement.

Community Capacity

6.19 Based on program documentation provided by the Department, the objective of Community Capacity grants is to support the Community Development Bureau's effort associated with consultations, communication and community planning at the local level. Funding is available to community planning groups on approval of a Community Development Officer.

6.20 According to program eligibility criteria, support is supposed to be available only for projects proposed by community and non-profit groups. However, approximately half of the funding in 1999-2000 went to Enterprise PEI to purchase computer equipment for the Community Development Officers who are employees of the Department of Development and Technology.

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Craft Industry

6.21 The objective of the craft related programs as described in program documentation provided by the Department is to assist the PEI Craft Council with its operating costs, to fund the Province's share of the Atlantic Craft Trade Show in Halifax, and to create continuing jobs and increase revenue for craftspeople across the Province. Contributions for marketing, product development, and training are available to individual craftspeople.

Recommendations

6.22 Expected results should be documented for the various grant programs and programs should be evaluated on a regular basis to determine if expected results are being achieved.

6.23 Program staff should document the assessment of projects and confirm eligibility.

6.24 Controls should be improved to ensure all grants paid are fully documented and supported with billings from suppliers, certification of expenditures by clients, and the verification by Department staff of the final cost claim summary.

Economic Development Leadership Agreement

6.25 The Economic Development Leadership Agreement is the Provincial component of Part 2 of the Canada/Prince Edward Island Agreement on Regional Economic Development. Program areas to be supported are infrastructure, education support, community economic development and prospecting. The agreement covers expenditures of $37 million over five years funded 70 percent by the federal government and 30 percent by the Province. We verified that project approvals were authorized by an appropriate federal official.

6.26 The general goals of the grant programs as defined by the Federal/Provincial Agreement are to support:

- industrial, technological, and informatics infrastructure;
- new tourism products;
- education and training for knowledge-based industries; and
- market and trade development.

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- industrial, technological, and informatics infrastructure;
- new tourism products;
- education and training for knowledge-based industries; and
- market and trade development.

6.27 The following grant programs were supported in 1999-2000.

Program	Number of Projects	Grants Paid
Strategic Infrastructure	12	$6,588,000
Tourism Related Strategic Infrastructure	80	1,337,000
Educational Support Strategic Development	12	893,000
Export Trade Development and Development Prospecting	11	218,000
Total	115	$9,036,000

6.28 Expected results or measures were not established for the grant programs. Provision was made in the Federal/Provincial Agreement for evaluation. An evaluation framework has been drafted to evaluate these grant programs at the completion of the agreement. Plans were being discussed by federal and provincial staff to have evaluations performed.

Strategic Infrastructure

6.29 Strategic Infrastructure supports industrial, technological and information technology infrastructure. Eligible applicants include manufacturers, processors, governments and non-profit organizations. Commercial enterprises are not eligible for direct contributions. Examples of projects included $2.5 million for the sewage treatment plant, central water system, power and roads at the Links at Crowbush Cove; $1.7 million for property improvements at Slemon Park to allow for business expansion; $1.5 million for Founders Hall; and $.5 million for the marina expansion and waterfront improvement project in Charlottetown.

6.30 Approximately $6.6 million was charged to Strategic Infrastructure grants in 1999-2000. This included the following payments made for projects that did not commence until 2000-2001. These payments were made in advance for the total amounts approved for each project.

Environmental Industrial Services Inc. (Crowbush Development)	$2,500,000
Charlottetown Area Development Corporation (Founders Hall and Marina Expansion)	2,000,000
PEI Business Development Inc. (Slemon Park Improvements)	1,700,000
	$6,200,000

The above recipients are Crown corporations. While some advances are a normal part of the payment process and are permitted in the signed project agreements, the total grant is usually not paid until the projects are completed, invoices examined and costs verified.

Tourism Related Strategic Infrastructure

6.31 This program supports new product development, product enhancement, major festivals and improved infrastructure. Provincial and industry organizations are eligible under the program. Examples of projects supported include $340,000 for the Confederation Trail; $150,000 for the Lori Kane Island Challenge; $60,000 for the 1999 Highland Gathering; and $150,000 for the Confederation Centre production of "Emily".

6.32 Files were typically found to have complete documentation including applications, proposals, project authorizations, agreements or offers, and support for payments. Exceptions included three projects totalling $490,000 that did not have proposals or offers on file. Two of these projects totalling $340,000 were with Tourism PEI and related to the ongoing development of the Confederation Trail. The third grant was to Golf Links PEI Inc. for $150,000.

6.33 The Tourism Related Strategic Infrastructure program used letters of offer to the client. The offer does not require acceptance by the client and does not include conditions for repayment of the advance if the project is cancelled or downsized.

Educational Support Strategic Development

6.34 This program supports education and training efforts that enhance the development of knowledge-based industries. Eligible applicants include public sector institutions involved in education and training. Projects included $500,000 for the enhancement of the

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Department of Education Intranet and $86,000 for client-centered integration of federal, provincial and municipal information.

Export Trade Development and Development Prospecting

6.35 This program supports efforts to increase exports and to attract industries to the Province. The program is available to government and industry organizations. The major projects are noted below.

- Funding was provided for the Asia-Pacific Office in Hong Kong, ($65,000) to attract trade and investment from the region. The office is operated by a private company and the funding represents 20 percent of budgeted costs for a two year period.
- The Provincially-sponsored booth at the Biotech 2000 show in Boston cost $52,000. The funding covered the PEI booth ($28,000), promotional materials ($12,000) and related services ($12,000).

Recommendations

6.36 Each grant program should have expected results defined in terms that can be quantified and assessed.

6.37 Grant programs should be evaluated on a regular basis to determine if expected results are achieved.

6.38 Grants should not be paid in full until projects are completed and costs are verified.

6.39 All project files should have documented proposals and letters of offer on file.

6.40 Offers should clearly identify the terms and conditions of the grant and require formal acceptance by the client.

Technology PEI Programs

6.41 Technology PEI is a division of the Department that was established in 1998 to provide leadership, coordination and focus to governments information technology efforts. The objectives of Technology PEI are to make information technology (IT) a major contributor to the Provincial economy, have PEI recognized as a

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model for electronic service delivery, and help all Island residents and businesses benefit from the growing knowledge-based economy. The grant programs contribute to these objectives.

6.42 Technology PEI, through joint strategic planning with the Information Technologies Association of PEI, has established clearly defined goals of:

- creating 800 new, long-term jobs in PEI over the next two years;
- doubling the contribution to the Provincial GDP by the IT sector in the next two years;
- delivering all Provincial Government information and transaction services electronically within two years;
- increasing the number of PEI companies using the internet to conduct business to 60 percent within two years;
- increasing the number of households with home computers and internet access from 27 percent to 35 percent within one year and to 45 percent within two years;
- increasing internet use by residents to be the highest level in Canada; and
- increasing the standard of living indicators in the areas of health, education, safety and the environment by more than the national average in each of the next two years.

6.43 The following grant programs were funded in 1999-2000.

Grant Program	Number of Projects	Grants Paid
Community IT Development	65	$1,060,000
IT Workforce Development	6	56,000
IT Sector Development	7	402,000
IT Marketing and Promotion	12	195,000
Total	90	$1,713,000

6.44 Currently staff enter into agreements with clients on behalf of government. Under Treasury Board Policy agreements on behalf of Government must be executed by the Minister or Deputy Minister. This current practice contravenes Treasury Board Policy.

6.45 We also noted that no formal evaluation was completed or planned for these grant programs.

Community IT Development

6.46 This program is focused on maintaining approximately 60 Provincial Community Access Program (CAP) sites and increasing the utilization of technology by business and residents. The CAP program was initiated by Industry Canada in 1995 and was run by volunteers until 1998 when it was moved to Technology PEI. Each CAP site was eligible for startup funding of approximately $20,000 and sustainable funding of up to $20,000 payable over three years. Five sites were designated to receive funding for additional staff and services. Special projects which promoted the use of the network were also funded.

6.47 Program criteria for the CAP program were clearly defined and available to clients. CAP sites exist in all major Island communities. Other grants were based largely on proposals submitted by industry. Specific criteria for assessing these proposals were not documented. Proposals were evaluated by Department staff based on their potential overall contribution to Technology PEI's overall goals.

6.48 We made the following observations concerning file documentation:

- A number of grant files did not contain funding agreements. In a few cases these may have been executed by the predecessor organization but could not be located. In others, agreements were verbal or summarized in a letter or e-mail from Department staff outlining the funding arrangements. These were not required to be accepted by the recipient.
- A few payments were made which exceeded the approver's authorized signing authority.

IT Workforce Development

6.49 This program is focused on developing training programs and a skilled workforce. Four projects were funded in 1999-2000 including the development of a new education program by UPEI and Holland College to train people to develop websites. Support was also provided towards profiling PEI women for the national Inventive Women Website.

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IT Sector Development

6.50 This program provides infrastructure and supports new products for export. Seventy-five percent of the funding was directed towards small grants for businesses to set up a website and to develop e-commerce for export. These programs were delivered by PEI Business Development Inc. commencing in 2000-01.

IT Marketing and Promotion

6.51 This program is focused on supporting the Information Technologies Association of PEI and related activities. Most of this funding was directed towards attracting the Softworld Conference which will be hosted in PEI in 2002.

Recommendations

6.52 Agreements on behalf of government should be executed in accordance with Treasury Board Policy.

6.53 Grant programs should be evaluated on a regular basis to determine if expected results are achieved.

6.54 Grants should be based on documented funding agreements or offers that clearly outline the responsibilities of each party.

6.55 Clients should be required to formally agree to funding agreements and offers.

6.56 Payments should be properly authorized.

MANAGEMENT RESPONSE

6.57 We have discussed our report with management and they indicated that the issues raised will be addressed.

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7. GOVERNMENT GRANTS - DEPARTMENT OF AGRICULTURE AND FORESTRY

BACKGROUND

7.1 The mandate of the Department is to contribute to economic and community development throughout Prince Edward Island by promoting the growth of successful, sustainable farming, food processing and forestry businesses; identifying and developing market opportunities for primary, value-added and knowledge-based products and services; and promoting the development of the Acadian and Francophone culture.

7.2 The Department's programs, services and grants are guided by the overall strategic plan. The overall goals related to the grant programs are summarized as follows:

- to improve the quality of advice, assistance and information to clients in agriculture and forestry; and
- to encourage clients to pursue strategic and value-added opportunities.

7.3 The Department administers the following grant programs in support of its mandate:

Grant Programs	**Expenditures 1999-2000**
Agriculture and Environmental Resource Conservation	$970,000
Agricultural Industry Transition Program	245,000
Forest Renewal Program	696,000
Lean Beef Program	197,000
Primary Resource Development Program	860,000
Other	145,000
Total	$3,113,000

7. Government Grants - Department of Agriculture and Forestry

OBJECTIVES AND SCOPE

7.4 In accordance with Section 13 of the Audit Act we reviewed the systems in place for administering the program grants provided by the Department for the year ended March 31, 2000. Our objective was to ensure the grant programs were delivered in accordance with good management practices.

7.5 We performed our examination in accordance with the auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

7.6 The audit for each grant program consisted of interviews with program staff, a review of the program objectives, and examination of a sample of project files.

7.7 We expected to find:

- grant programs with clearly defined goals, expected results, monitoring of performance, and periodic evaluation;
- applications or proposals from prospective recipients that documented the purpose of the project, the amount of funding requested and the expected results;
- an approval process that documented project eligibility, funding decisions and authorization of payments; and
- signed funding agreements that defined the objectives, terms and conditions for funding.

OVERALL OBSERVATIONS

7.8 The Department paid over $3 million in grants during 1999-2000. In general, the grant programs we examined were properly administered and payments were made in accordance with program eligibility requirements, terms and conditions. However, an overall weakness in the programs examined was the lack of specific documented objectives and the results expected to be achieved by the programs. Without this information it is difficult to assess program performance. With competing demands for these resources it is important to be able to measure the impact and cost-effectiveness of the grant programs.

DETAILED AUDIT OBSERVATIONS

Agriculture and Environmental Resource Conservation Program

7.9 The Agriculture and Environmental Resource Conservation Program provides assistance to carry out sustainable on-farm practices identified in the Environmental Farm Plans. According to program documentation provided by the Department, the program is an integral part of the PEI Food Strategy to assist PEI farmers to produce high quality food products. The program will also assist farmers and owners of agricultural land to comply with legislation impacting their operation. Eligible activities include manure storage, petroleum and pesticide storage, milk-house waste management systems, and erosion control projects identified in the farmer's Environmental Farm Plan.

7.10 Applicants are eligible for grants of up to $30,000 in each fiscal year of the program. Projects must be completed within one year or be divided into separate projects.

7.11 The program started in April 1999 and provided funding for the following projects in 1999-2000:

Project Type	Number of Projects	Grants Paid
Manure Storage	36	$824,000
Soil Conservation	35	109,000
Fencing/Watering	13	36,000
Structures/Storage	1	1,000
Total	85	$970,000

7.12 The program had goals of encouraging further development and implementation of sustainable agricultural production systems by PEI producers. Expected outcomes were reduced soil erosion and degradation; and improved sustainability of the agricultural land base. Measurable targets and priorities were not identified by management such as the level of soil erosion that is acceptable. Projects with different potential benefits were funded on a first-come, first-served basis rather than whether the project best satisfied the program objectives.

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7.13 The files we reviewed contained complete documentation and the required authorizations and approvals. We noted, however, that the claim for reimbursement did not require the project officer to verify or confirm that the work was complete.

Recommendations

7.14 The results to be achieved by the Agriculture and Environmental Resource Conservation Program and the measures to be used to assess their achievement should be developed and documented by the Department.

7.15 Priorities should be identified so that funding is allocated to projects having the greatest benefit.

7.16 The Claim for Reimbursement should be modified to confirm that the project officer has visited the site to verify that the work is complete.

Agriculture Industry Transition Program

7.17 The Province established the Agriculture Industry Transition Program subsequent to the phase out of the Atlantic Freight Transportation Subsidy. Funding of $2.1 million was provided for agriculture for the period April 1, 1996 to March 31, 2000.

7.18 The program had a general goal of providing assistance to agricultural organizations to develop plans and strategies for their industry. A specific target existed in terms of initiating planning in all identified farm organizations. Program criteria were defined and information was made available to the client group, which consisted of approximately 20 farm organizations.

7.19 Funding was made available to agricultural groups based on the gross value of the respective commodities. Payments in a typical agreement were 15 percent on approval of the application, 35 percent on approval of the strategic plan, and 50 percent based on the progress toward approved outcomes.

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7.20 Funding in 1999-2000 was as follows:

Organization	Grants Paid
PEI Potato Board	$135,000
PEI Cattlemen's Association	54,000
Forestry - Hardwood Report	17,000
PEI Federation of Agriculture	15,000
PEI Poultry Meat Commodity Marketing Board	12,000
PEI Horticultural Association	9,000
Other	3,000
Total	$245,000

7.21 Under this program certain conditions were supposed to be met to receive the grant. A plan for each organization was to be prepared and the later payments were to be based on the applicant's progress toward achieving the results as outlined in the plan. We noted instances where final payments were made without adequate documentation to support the payment as outlined in the terms of the program.

7.22 The program has been in place for four years and has not been formally evaluated.

Recommendations

7.23 In accordance with the terms of the program, required documentation should be on file to support payments.

7.24 The program should be evaluated by management on a regular basis to determine if expected results are being achieved.

Forest Renewal Program

7.25 The Forest Renewal Program was established by regulation and under agreement with the PEI Forest Improvement Association. Under the program the Province shares the cost of seedling production, reforestation, and the grant to the Forest Improvement Association on a 70 percent government/30 percent industry basis.

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PEI Poultry Meat Commodity Marketing Board	12,000
PEI Horticultural Association	9,000
Other	3,000
Total	$245,000

7.21 Under this program certain conditions were supposed to be met to receive the grant. A plan for each organization was to be prepared and the later payments were to be based on the applicant's progress toward achieving the results as outlined in the plan. We noted instances where final payments were made without adequate documentation to support the payment as outlined in the terms of the program.

7.22 The program has been in place for four years and has not been formally evaluated.

Recommendations

7.23 In accordance with the terms of the program, required documentation should be on file to support payments.

7.24 The program should be evaluated by management on a regular basis to determine if expected results are being achieved.

Forest Renewal Program

7.25 The Forest Renewal Program was established by regulation and under agreement with the PEI Forest Improvement Association. Under the program the Province shares the cost of seedling production, reforestation, and the grant to the Forest Improvement Association on a 70 percent government/30 percent industry basis.

7.26 To be eligible for the program, landowners sign a 15 year Forest Renewal Agreement allowing Department staff and contractors to work on their property. Department staff and the landowner agree on areas to be planted or maintained and, in most cases, contractors perform the work. Payments are made directly from the Department to the contractor after they have been authorized by Department staff and the landowner.

7.27 The industry contributes to the program through a forest management fee of $100 per hectare from landowners and $2 per cord from contractors for harvested wood exported from the Province. Fees are collected by the Province.

7.28 Each year any fees contributed by industry to the Provincial program in excess of the required 30 percent are paid to the Forest Renewal Fund.

7.29 The grants paid in 1999-2000 are summarized as follows:

Program	Number of Projects	Grants Paid
Site Preparation	227	$227,000
Planting	257	256,000
Plantation Maintenance	176	199,000
Stand Improvement	11	14,000
Total	671	$696,000

7.30 The program has goals of promoting sustainable harvest levels by increasing reforestation to 3 million seedlings per year by the year 2000 and providing financial support to forest landowners for implementing appropriate forest management treatments. Quantifiable targets other than the 3 million seedlings per year were not identified. We expected to find planting targets linked to the long-term goal of sustainable harvesting. Based on our discussions with staff we concluded that it is not clear if the amount of seedlings planted will achieve the goal of sustainable harvest levels.

7.31 Currently, Department staff enter into agreements with landowners on behalf of government. Under Treasury Board Policy, agreements on behalf of Government must be executed by the

Minister or Deputy Minister. The current practice is in contravention of this policy.

7.32 The last formal evaluation of this program took place in 1992 under the Canada/PEI Forest Resource Development Agreement. With the phase out of federal funding, the Forest Renewal Program is delivered in partnership with industry and has not been formally evaluated.

Recommendations

7.33 Quantifiable targets should be established for the Forest Renewal Program and linked to the goal of sustainable harvesting.

7.34 Agreements on behalf of government should be executed in accordance with Treasury Board policy.

7.35 The Forest Renewal program should be evaluated on a regular basis.

Lean Beef Program

7.36 The objectives of the Lean Beef Program were: to assist beef producers in increasing weaning weights of calves; to improve beef calf quality; to increase the use of scales for weighing cattle and feed; and to encourage the use of performance tested herd sires. Program expenditures for the year ended March 31, 2000 totalled $197,000. The program was discontinued and replaced by the Beef Development Program on May 1, 2000.

7.37 Under the Weaning Weight Program, payments were to be made based on weighing records. In some cases insufficient information was documented.

Recommendation

7.38 All claims should be properly supported and documented.

Primary Resource Development Program

7.39 The Primary Resource Development Program is a program of the Canada/PEI Regional Economic Development Agreement. The objective of the program as defined in the program description is to help support, expand, and improve the primary resource industries on

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Primary Resource Development Program

7.39 The Primary Resource Development Program is a program of the Canada/PEI Regional Economic Development Agreement. The objective of the program as defined in the program description is to help support, expand, and improve the primary resource industries on

a more integrated basis, reflecting economic opportunities and environmental imperatives. Funding is provided for four program areas:

- Human Resource Development and Quality Enhancement;
- Integrated Resource Management;
- Strategic Market Planning; and
- Strategic Opportunities.

All grants in 1999-2000 were for agricultural projects.

7.40 The Strategic Opportunities Program is delivered by the Atlantic Canada Opportunities Agency which authorizes the Province to make payments to clients.

7.41 The grants paid in 1999-2000 are summarized as follows:

Program	Number of Projects	Grants Paid
Human Resource Development	17	$ 57,000
Integrated Resource Management	5	230,000
Strategic Market Planning	14	132,000
Strategic Opportunities	22	441,000
Total	58	$860,000

7.42 The program has general goals of helping the primary resource industries improve their viability and competitiveness by supporting opportunities for diversification, added value, marketing, quality enhancement, development of human resources, and strategic planning initiatives.

7.43 Although general goals and eligibility criteria have been established for the program we noted that there is no indication of the expected results to be achieved. This could include measures such as increases in sales or market share. In addition, the program has not been evaluated since 1997.

Recommendation

7.44 The expected results to be achieved by offering the Primary Resource Development Program should be clearly defined and the program should be evaluated periodically.

MANAGEMENT RESPONSE

7.45 We discussed our report with management and they agreed with the issues raised.

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FINANCIAL STATEMENT AUDITS

8. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

8.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

8.2 Financial statements of the Province are the responsibility of management. This responsibility includes ensuring the integrity and fairness of the information presented. The financial statements provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

8.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. In each audit an examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The objective of the financial audit is to express an opinion on the financial statements.

8.4 In addition to issuing an Auditor's Report on the financial statements, problems may also be identified in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

8.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

8.6 In the following sections of this report we provide summary information on our audits of the Public Accounts and Appropriations.

9. PUBLIC ACCOUNTS

BACKGROUND

9.1 The Public Accounts contains two sets of financial statements; the Operating Fund and the Consolidated (Summary) Financial Statements. The Operating Fund Financial Statements provide the financial position and results of operations for government departments. The Consolidated (Summary) Financial Statements provide the financial position of government as a whole by including the Operating Fund plus Crown corporations and agencies.

9.2 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants makes recommendations to improve and harmonize public sector financial reporting, and auditing practices.

OBJECTIVES AND SCOPE

9.3 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2000. Our audit was performed in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

9.4 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

FINANCIAL HIGHLIGHTS

9.5 Following is a comparison of revenue and expenditure for the years ended March 31, 2000 and March 31, 1999 from the **Consolidated (Summary) Financial Statements.**

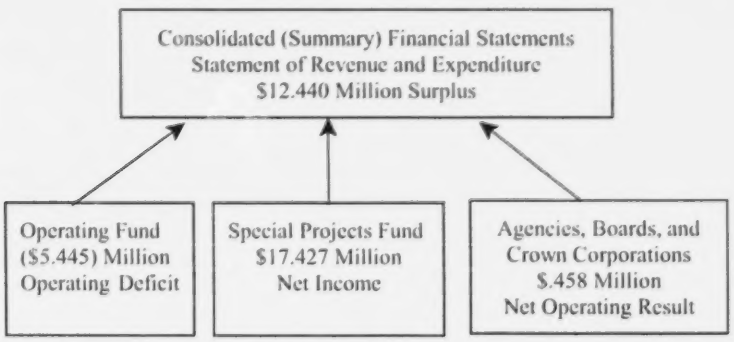
	Year Ended March 31 (Millions)	
	2000	1999
Provincial Revenue	$565.9	$514.8
Federal Revenue	355.6	359.7
	921.5	874.5
Expenditures	909.1	846.4
Surplus (Deficit)	$ 12.4	$ 28.1

DETAILED AUDIT OBSERVATIONS

Financial Statement Presentation

9.6 The Public Accounts Volume 1 contains two different surplus/deficit amounts; one under the Consolidated (Summary) Financial Statements and the other under the Operating Fund. In addition, Volume 1 contains budget estimates for the Operating Fund, however, no budget estimates are provided for the Consolidated (Summary) Financial Statements. The Consolidated (Summary) Financial Statements reflect significant financial activities of Government that occur outside the Operating Fund. The Consolidated Statements report the full nature and extent of the financial affairs and resources for which Government is responsible because they include the results of operations of Crown corporations and agencies.

9.7 There tends to be some confusion between the Consolidated (Summary) and the Operating Fund Financial Statements. The following illustration shows the connection between these statements and the major components of the $12.4 million surplus for the year as recorded on the Consolidated (Summary) Financial Statements.



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9.8 For the past two years, the Operating Fund results were significantly different from those contained in the Consolidated (Summary) Financial Statements. In 1999-2000 the Consolidated Statements showed a surplus of $12 million while the Operating Fund Statements showed a deficit of $5 million. Most of the $17 million difference relates to the operating net income of the PEI Special Projects Fund. In addition the Consolidated (Summary) Financial Statements include the surpluses and deficits of all Crown agencies within the reporting entity. The Consolidated (Summary) Financial Statements provide the complete financial results and should be the main source of financial information for the Province.

Recommendation

9.9 The Public Accounts Volume 1 should contain the Consolidated (Summary) Financial Statements and corresponding Consolidated budget figures. The Operating Fund Financial Statements and related Budget Estimates should be included in Volume 2 of the Public Accounts with the Crown agencies.

Special Projects Fund

9.10 The Prince Edward Island Special Projects Fund was established under the Financial Administration Act effective March 31, 1999. Pursuant to Section 14.8 of the Financial Administration Act, the Lieutenant Governor in Council made regulations for the Fund. These regulations established programs through which money can be disbursed, outlined the purpose of each program and determined eligibility criteria.

9.11 Under the Act, the Board, consisting of the Premier, the Provincial Treasurer, and one other Minister, is responsible for the overall administration of the Fund. From the various applications received, the Board decides which projects receive funding and the amount to be provided. The Province's Operating Fund has provided grants of $23.5 million to the Special Projects Fund in each of the last two years. When expenditures are approved by the Special Projects Fund for specific purposes a transfer is made back to the Operating Fund. When expenditures are made on each project, they are appropriated through the Operating Fund. Following is the balance sheet and income statement of the Special Projects Fund for the past two years.

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Special Projects Fund
Balance Sheet

	Year Ended March 31 (Millions)	
	2000	1999
Current Assets		
Due from the Province	$40.9	$23.5
Fund Balance	$40.9	$23.5

Special Projects Fund
Statement of Revenue, Expenditures and Fund Balances

	Year Ended March 31 (Millions)	
	2000	1999
Provincial Grants	$23.5	$23.5
Interest Income	1.0	-
Total Revenue	24.5	23.5
Expenditures	7.1	-
Net Income	17.4	23.5
Fund Balance, beginning of year	23.5	-
Fund Balance, end of year	$40.9	$23.5

9.12 Exhibit 9.1 shows a breakdown of the $7.1 million in expenditures by Fund and Department/Agency.

EXHIBIT 9.1
SPECIAL PROJECTS FUND

Department/ Agency	Health Care Stabilization Fund	Sustainable Resource Support Fund	Community Development Fund	Development Fund	Total
Health & Social Services	$1,619,600	$ -	$ -	$ -	$1,619,600
Development	-	-	750,000	1,894,000	2,644,000
Business Dev. Inc.	-	-	-	1,500,000	1,500,000
Agriculture & Forestry	-	1,000,000	-	-	1,000,000
Technology & Environment	-	339,200	-	-	339,200
Total	$1,619,600	$1,339,200	$750,000	$3,394,000	$7,102,800

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Grain Elevators Corporation

9.13 In previous years we expressed concerns about the operating losses of the Corporation and recommended that a prudent business plan be implemented to ensure that the Corporation would become financially stable. To address this concern, in August 1993 the Corporation implemented a pooling program for buying and selling its local grain and protein inventory. In adopting the pooling program, the Corporation's objective was to operate on a break-even basis. Despite a successful start to the program, pooling operations have incurred annual losses since 1996-97. Factors contributing to these losses include declining market prices, decreased pool participation and increased standard operating costs. Over the last four years, the operating losses incurred by the Corporation and the operating grants provided by the Province totalled $1.3 million. The Province has appropriated for the losses up to July 31, 1999. Additional losses of $151,228 were incurred by the Corporation in 1999-2000 bringing total losses to $737,280 for the four year period. These losses are in addition to the $585,633 in Provincial grants provided to the Corporation over the same period.

Recommendation

9.14 The Corporation should review its operations and establish a course of action to minimize its losses and the future financial exposure of the Province.

Public Trustee

9.15 Last year we reported on several issues relating to the accounts and activities of the Public Trustee. As part of our annual audit of the Public Trustee for the year ended March 31, 2000, we followed up on the issues reported last year. We noted that management is taking action on our recommendations.

Public Sector Accounting Board (PSAB)

9.16 The PSAB recommendations have been in place for several years. The Province's implementation of many of these recommendations has resulted in significant changes to the Public Accounts. While much has been accomplished, discussions are still underway on current recommendations and on issues where new pronouncements are pending. These discussions focus not only on interpreting recommendations but also on assessing the impact on the Province's financial position. While it is recognized that required changes cannot always be implemented as quickly as hoped, there are certain issues that require more attention.

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Consolidated Budget Estimates

9.17 We have been recommending for several years that Government prepare Consolidated Budget Estimates. While some discussions have taken place in the past year, Government has not committed to a definite implementation date.

9.18 The importance of preparing Consolidated Budget Estimates cannot be overemphasized. Financial statement users need information that will help them assess Government's performance. Financial information that makes it possible to identify variances, to compute trends, and to analyze operations is useful in fulfilling this need. A comparison of the actual consolidated results with a Consolidated Budget is necessary to identify significant variances.

9.19 Several other jurisdictions are preparing consolidated budget estimates. In addition, the December 1, 2000 interim report of the Standing Committee on Public Accounts recommended that the Department of Provincial Treasury prepare consolidated budget estimates for approval by the Legislative Assembly.

Expenditure Recognition and Government Transfers

9.20 PSAB states expenditures should be accounted for in the period the goods and services are acquired and a liability incurred, or when transfer payments are due. As well the issue of when to recognize government transfers is also discussed. PSAB indicates that government transfers should be recognized in a government's financial statements as expenditures or revenues in the period that the events giving rise to the transfer occurred, as long as:

- the transfer is authorized;
- eligibility criteria, if any, have been met by the recipient; and
- a reasonable estimate of the amount can be made.

9.21 The purpose of these PSAB recommendations is to record transactions in the correct accounting period by ensuring the substance of the underlying event is reflected, rather than the form or funding pattern. That is why documentation for any transfer has to be complete enough to demonstrate that the criteria are met.

9.22 We have discussed with Government the need to have clearly established accounting policies for recording all expenditures especially grants. Such policies should be consistent with PSAB recommendations.

Accrued Employee Entitlements

9.23 The recent CICA handbook section on employee future benefits addresses not only pension benefits but also other related employee benefits such as retirement pay. PSAB is currently working on changes to accounting recommendations for pension benefits and is developing recommendations for other employee benefits.

9.24 In 1995 the Province initially recorded a $26 million liability for accrued vacation and retirement benefits, however, it only included Civil Service employees and some employees in the health sector. As at March 31, 2000 the Province has recorded additional accrued employee entitlements for which it is responsible including the health and education sectors. As well, the Province changed the way it calculates the entitlements in order to comply with the new CICA handbook recommendations. As a result of implementing the new CICA recommendations an employee benefits accrual adjustment of $28.5 million was made and recorded directly to net debt.

Recommendations

9.25 Consolidated Budget Estimates should be prepared.

9.26 Accounting policies, consistent with PSAB recommendations, should be prepared for government transfers.

Pension Obligation

9.27 A pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. At March 31, 1994 the Province formally recorded this $345 million liability for the first time. Beginning in 1995-96 the Province made the first installment on the nearly $197 million in additional payments to be provided to the Teachers' and Civil Service Superannuation funds over ten years. This measure, along with high rates of return on pension fund investments and increased contribution rates, helped reduce the obligation to $126 million at March 31, 1998. During the past two years pension plan amendments and declining investment

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returns have caused this trend to be reversed. The obligation has increased to $191 million at March 31, 2000. Given the magnitude of the pension fund liabilities and potential fluctuations in asset values, it is important that the Province's obligation be monitored carefully. The Public Accounts have reported the following total pension obligations during the past three years;

	Year Ended March 31 (Millions)		
	2000	1999	1998
Pension fund liabilities	$846.8	$732.1	$689.5
Pension fund assets	656.0	574.3	563.1
Gross obligation per Public Accounts Statement 1	$190.8	$157.8	$126.4

Department of Transportation and Public Works - Accounts Receivable

9.28 The Department of Transportation and Public Works administers various accounts receivable that are recorded in the Province's accounting records. The Department has advised us that they do not charge interest on any past due accounts.

9.29 In our annual report last year we reported that $336,000 of the $1.3 million March 31, 1999 balance had been outstanding for more than one year. At March 31, 2000 the Department reported accounts receivable balances of $2.5 million with $553,000 of that balance outstanding for more than one year.

9.30 Approximately 80 percent of the $553,000 in receivables older than one year relate to highway easement fees. Department of Transportation and Public Works staff have indicated the utilities are challenging the Province's right to levy the fees, therefore most of the amounts have never been paid since assessments started being billed in 1997-98. As of March 31, 2000 outstanding highway easement fees totalled $844,000.

9.31 Other accounts receivable include amounts owing from paving contractors for the Province's liquid asphalt used in non-government projects. Generally the amounts owed to the Department are from the previous paving season but will not be collected until the following season. At March 31, 2000 paving contractors owed the Department $360,000 for liquid asphalt used during the 1999 paving season.

9.32 The Department does not have any allowance for bad debts established for their receivable balances. In one example, the Taxation Division within the Department of Provincial Treasury has a $236,000 receivable from a company that is fully provided for in its allowance, yet the Department of Transportation and Public Works has a $152,000 receivable from the same company and no allowance has been established. Also, an allowance has not been set up for the highway easement fees of $844,000 previously noted.

9.33 The Department's detailed schedules to support the receivable balance were $51,000 higher than the actual general ledger amount. As of January 31, 2001, a complete reconciliation had not been prepared.

Recommendation

9.34 Proper management of accounts receivable requires:

- **Timely collection of amounts owing and adequate follow up on past due balances;**
- **Interest charges on overdue balances;**
- **A reconciliation of detailed accounts receivable balances to the general ledger amount; and**
- **An allowance for bad debts where the collection of accounts receivable is doubtful.**

Cancellation or Discharge of Debt

9.35 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount cancelled or discharged under this section in the 1999-00 fiscal year was $801,645. This amount related to the Revenue Tax Act $219,927; the Welfare Assistance Act $307,044; the Environment Tax Act $8,334; and the Lending Agency Act $266,340.

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Surplus (Deficit) of Crown Agencies and Corporations

9.36 Section 16 of the Audit Act requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus (Deficit) For the Year	Cumulative Surplus (Deficit)
Agricultural Insurance Corporation	$ (573,406)	$ 7,080,016
Agricultural Research Investment Fund Inc.	(3,430)	1,155,060
Aquaculture and Fisheries Research Initiative Inc.	(63,525)	785,902
Business Development Inc.	18,849	1,492,314
Charlottetown Area Development Corporation	(8,347)	5,485,749
Eastern School District	11,819	11,819
Energy Corporation	(24,536)	42,985
French Language School Board	3,628	60,579
Human Rights Commission	1,133	1,130
Innovative Solutions Agency (PEI) Inc.	356,330	363,667
Island Investment Development Inc.	17,418	(259,568)
Island Waste Management Corporation	(107,621)	238,329
Lending Agency	360,993	424,858
Museum and Heritage Foundation	(42,064)	496,787
Self-Insurance Fund	215,244	7,719,331
Special Projects Fund	17,426,765	40,926,765
Summerside Regional Development Corporation Ltd	763,795	3,093,747
Tourism PEI	9,334	909,901
Western School Board	99,545	27,592
Workers Compensation Board	317,222	(27,771,374)

MANAGEMENT RESPONSE

9.37 These issues have been discussed with management and a written response will be provided.

10. APPROPRIATIONS

INTRODUCTION

10.1 Our audit of Appropriations for the year ended March 31, 2000 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature and special warrants approved by Executive Council on the recommendation of Treasury Board.

10.2 The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 1999-2000 were approved in the Appropriation Act 1999. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

10.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the 1999 Appropriation Act.

SPECIAL WARRANTS

10.4 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

10.5 For the 1999-2000 fiscal year, special warrants totalled $88.5 million compared to $73.8 million in 1998-99. Of the special warrants issued for 1999-2000, $21.3 million was offset by revenue and $.3 million was offset by funds sequestered from appropriations. The result was a net increase in provincial appropriations of $66.9 million.

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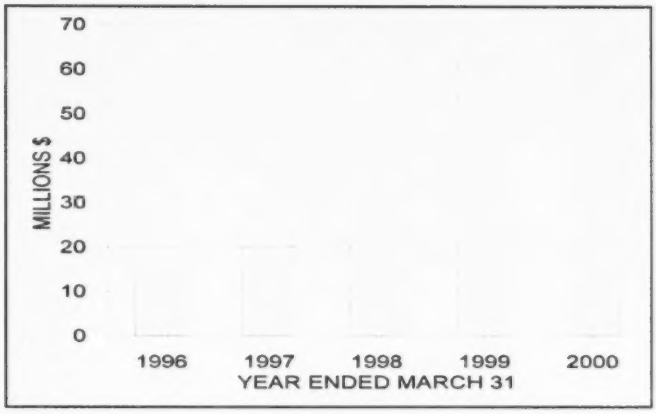
10.6 **Exhibit 10.1** indicates the special warrants net of any offsets for the last five years.

EXHIBIT 10.1
SPECIAL WARRANTS LESS OFFSETS



Transfers Between Departments

10.7 During the year, appropriation transfers of $4.4 million were made due to the transfer of functions between government departments. Approval was not obtained by Order in Council for these transfers. In our opinion, the intention under Section 37 of the Financial Administration Act is that these transfers be approved by Order in Council.

Recommendation

10.8 When a transfer of funds occurs between government departments, approval should be obtained by Order in Council in accordance with the Financial Administration Act.

Intent of Special Warrants

10.9 According to the Financial Administration Act, with the exception of special warrants, payments are not to be made out of the Operating Fund without the authority of the Legislative Assembly. The Budget Estimates are prepared annually for the Legislative Assembly to serve as detailed support for the appropriations approved in the Appropriation Act. The Financial Administration Act provides for special warrants to be used where the Legislative Assembly is not in session, a payment is required for the public good and there is no available appropriation. It is a requirement that special warrants be

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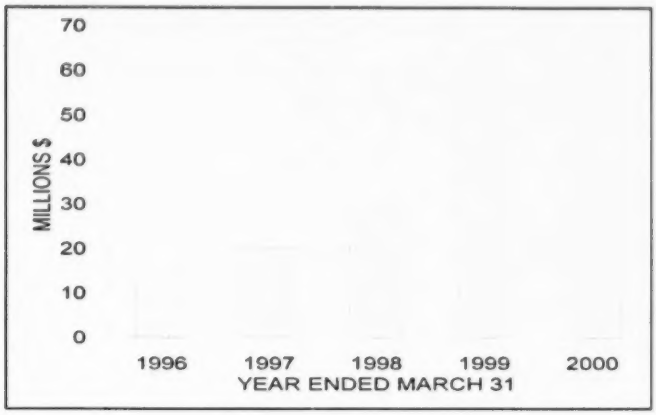

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approved in the next session of the Legislative Assembly by way of a Supplementary Appropriation Act.

10.10 Last year we recommended that Treasury Board develop explicit criteria to determine when special warrants are appropriate under the Financial Administration Act. Provincial Treasury accepted our suggestion and agreed to review the Financial Administration Act to determine if criteria need to be developed to provide additional guidelines for the use of special warrants. In the December 1, 2000 interim report of the Standing Committee on Public Accounts it was noted that the Committee specifically discussed and reiterated this recommendation. No change has been made to date, but we were advised that Provincial Treasury is currently reviewing this issue.

MANAGEMENT RESPONSE

10.11 Management intends to take action on the points raised.

UPDATE ON PREVIOUS RECOMMENDATIONS

11. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

11.1 Each year as part of the audit process, we make a number of recommendations to improve management and administration of government operations and programs. We do not infringe on management's right to select the best course of action to address any problems identified. We want to ensure, however, that all recommendations are being addressed by management.

11.2 In its December 2000 interim report, the Public Accounts Committee endorsed the observations and recommendations made in the 2000 Annual Report of the Auditor General. Further, the Committee requested that the status of implementation of the recommendations be reported in the 2001 Annual Report of the Auditor General to the Legislative Assembly.

11.3 As in prior years, we requested information from departments and agencies on the status of any outstanding audit recommendations. Normally this information is limited to correspondence from the Deputy Minister or Chief Executive Officer of the organization and we do not always further verify or check the information received. However, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

11.4 Following is information on the status of recommendations from the special audits and examinations reported in the 2000 Annual Report of the Auditor General as well as some outstanding issues from audits prior to 2000.

COURTHOUSE RENOVATIONS - 2000 ANNUAL REPORT

11.5 Following are the recommendations from the audit as presented in the Auditor General's 2000 Annual Report. The status of these recommendations is also provided, based on information provided by management of the Department of Transportation and Public Works.

Auditor General's Recommendation	Status/Management Response
Terms of reference including the purpose, authority and composition of planning or building committees should be clearly defined and documented before committees are established.	Department management indicated that terms of reference for Building Committees are being completed on new projects.
In accordance with Treasury Board policy, the Department of Transportation and Public Works should approve all changes to capital projects.	Management indicated that changes to capital projects are now approved by the Department, and Treasury Board approval will be requested if required.
Transportation and Public Works should obtain the required Treasury Board approval prior to engaging consultants.	According to the Department, Treasury Board approval, when required, is now obtained prior to engaging consultants.
Transportation and Public Works should ensure that projects are clearly defined before they are tendered.	Department management indicated that tender documentation is reviewed prior to tender with the objective of providing a complete description of the work.
Transportation and Public Works should ensure that the change order provisions of the Treasury Board Policy are followed including approval of change orders and pricing prior to commencement of the work.	Management indicated that change orders are approved by the Department, however in numerous cases authorization to proceed is given before pricing is provided in order to prevent claims associated with construction delays.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The costs of entering into complex lease arrangements should be fully evaluated to ensure they are economical for the Province.	The Department indicated that the costs of lease arrangements will be evaluated should the concept of providing facilities through a lease rather than capital construction be under consideration.
Transportation and Public Works should determine the reason administration fees are higher than the proposal for the Law Courts lease and ensure appropriate corrections are made.	The Department indicated that documentation and agreements related to the administration fees are under review.

QUEENS REGION -WELFARE ASSISTANCE - 2000 ANNUAL REPORT

11.6 Following are recommendations from the audit as reported in the Auditor General's 2000 Annual Report. The status of these recommendations is also provided, based on information received from the management of Queens Region.

Auditor General's Recommendation	Status/Management Response
In accordance with the Welfare Assistance Act Regulations, approval to delegate signing authority should be provided in writing from the Minister or Deputy Minister to the Director of Income Support.	The Region has indicated that the Department of Health and Social Services will be addressing a number of proposed Regulation changes including delegation of signing authority.
Signing authority for special needs expenditures should follow the limits indicated in the Welfare Assistance Act Regulations.	The Region feels the special needs regulations need to be updated and the Department will address this in its proposed changes to the Regulations.
Signing authorities should be updated to reflect staffing changes.	Signing authorities have been updated and procedures have been put in place to ensure signing authorities are kept current with staff changes.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Management should examine the current signing authority levels along with a review of the number and dollar value of various payments to determine if there is an appropriate level of supervisory review over financial assistance payments.	Region Management has reviewed the signing authority levels and indicated that the current levels are appropriate.
Each year the Department should submit the information necessary for the Lieutenant Governor in Council to review the rates of assistance to determine their adequacy as required by the Regulations to the Welfare Assistance Act.	The Region has indicated that rate reviews are the responsibility of the Department and given that there have been two reviews this year, a commitment to rate reviews appears to be in place.
Management should obtain information regarding job placements, returns to welfare assistance, and cost comparisons of various alternatives to determine the impact of job creation and employment enhancement activities on the Welfare Assistance Program.	Region Management has indicated that a review will be completed by January 31, 2001 but that given the low rate of returns to Welfare Assistance, the program is cost effective.
Management should receive additional information to manage and control overpayments. This would include overpayments and recoveries by caseworker, balances and payments by active and inactive clients, and information on recovery agreements reached with clients.	A Provincial overpayment recovery program has been implemented. Recoveries have increased as a result of the Department dedicating specific resources to addressing overpayment/recovery management.
The Division should establish a process to ensure supervisory review of each worker's files is carried out on a periodic basis.	An internal auditing process has been initiated which will involve random sampling of caseworker files with results reported. Each caseload will be audited for adherence to policy, file maintenance, timely reviews, and proper documentation. Corrective action will be taken when necessary.
Management should monitor Quality Control Reports and ensure errors noted are dealt with on a timely basis.	The administrative supervisor has been assigned responsibility for ensuring errors are corrected on a timely basis.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Procedures relating to the completion and filing of employment assessment forms should be followed.	Responsibility for assessments has been transferred to the Employment Enhancement Division and the assessments are now being completed.
Management expectations relating to the development, implementation and follow-up of case plans should be clearly communicated. Documentation methods should be reviewed to ensure information is maintained on planned activities and tasks, participation in planned activities and evaluation of progress towards self sufficiency.	Management has committed to standardizing the process for completion and follow-up of case plans by March 31, 2001.
To reduce the amount of information that is duplicated in the files and to improve the quality of file documentation there should be increased use of computerization in the production of client file documents.	A proposal for an integrated case management system including welfare assistance programs has been developed by the Department but a decision to implement the proposal is still pending.
The Region and the Department should implement control total balancing between the Health Financial System records and the Management Information System records of the Department and ensure that any differences between the systems are detected and corrected.	We have been informed that Department staff are conducting a review to determine what reports need to be generated by the Region and will assign responsibility for reconciling this information.

HOLLAND COLLEGE - 2000 ANNUAL REPORT

11.7 We conducted a value for money audit at Holland College in 1999 at the request of the Legislative Assembly. Recommendations arising from that audit were reported in our 2000 Annual Report. This year we are providing information on the status of our recommendations based on information received from management of Holland College.

Auditor General's Recommendation	Status/Management Response
Governance	
The process for determining appointments to the Board by the Lieutenant Governor in Council should be improved. Guidelines on desirable qualifications and attributes of prospective Board members should be developed by the College and input from the Board Chair should be provided when filling all vacancies.	The Board of Governors has approved guidelines and processes for the appointment of new Board members. These were forwarded to the Minister and Deputy Minister for their consideration.
The membership of standing committees of the Board, established in Board regulations, should be followed.	Appropriate amendments were approved for the membership of the standing committees of the Board. The memberships of new standing committees for the 2000-2001 fiscal year followed these amended regulations.
The configuration of the Board of the Institute of Adult and Community Education should be in accordance with the terms established in the articles of incorporation.	The composition of the Board of Directors of the Institute is now consistent with the By-Laws in every respect.
The roles, responsibility and authority of the Institute Boards of Directors in relation to the Board of Governors of the College should be clarified.	The President will address and clarify the roles, responsibilities and authority of the Institute Boards of Directors.
The Board of Governors should request periodic reporting on the goals and objectives of the Holland College Foundation and the results achieved.	At the March meeting, the Holland College Foundation Strategic Plan was presented to the Board of Governors for their review. As part of the President's Report at the Annual Meeting the progress of the Foundation and the results of the fund raising efforts were reviewed.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Provincial government, in consultation with Holland College and the public, should develop a long-term plan for post secondary education for the Province supported by a long-term funding commitment to the College.	The Board of Governors contacted the Department of Education indicating the College's willingness to participate with government in the development of a long-term plan for post secondary education for the Province. A response was received from the Department and a joint working committee has been established.
Accountability	
The College should provide summary performance information in its annual report to the Legislative Assembly. The report should: • focus on results and achievements; • relate actual achievements to expectations; • include both the successes and shortcomings of performance; and • relate costs to results.	The College continues to refine and implement its accountability framework. The College needs to work with government to determine the appropriate level of accountability to the Legislative Assembly. The College's Annual Report for 1999-2000 reflected a number of issues identified in the Auditor General's report in relation to this recommendation. The College will continue to refine and enhance the Annual Report in meeting the criteria identified by the Auditor General.
Comparative Information	
More detailed information should be obtained from other Atlantic colleges on revenues and expenditures. This information could be used to identify significant trends and variances that should be considered in determining and assessing funding requirements.	The Association of Canadian Community Colleges (ACCC) has further expanded its work in bench-marking initiatives for community colleges. Holland College has been a participant in that work and looks forward to obtaining these outcomes and more extensive information relating to bench-marking.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Financial Control and Budgeting	
The College's deficit situation should be addressed. Funding requirements should be assessed based on a long-term plan developed in consultation with the Provincial government.	The College's funding was increased in the 2000-2001 Provincial budget by $1 million each year over the next three years, although the College had requested $4.2 million. No further discussions have been held with government regarding general College funding although numerous discussions have been held on funding shortfalls for specific programs/initiatives.
The College and the Provincial government should reach an agreement on the requirements of the Holland College Act related to Executive Council approval of long-term debt.	A working committee of Departmental and Holland College representatives has been established and one meeting has been held. No activity has taken place subsequent to the initial meeting, however, attempts will be made with the Department to establish regular meetings.
Management should ensure the financial information system is fully implemented and complete, accurate financial information is available on a timely basis.	With the exception of the fixed asset module, the financial information system is fully implemented. The fixed asset module is being implemented this fiscal year.
Reports comparing budgeted revenue and expenditures to actual results should be prepared on a timely basis and explanations for variances should be provided by management to the Board of Governors.	Status reports on finances that compare budget to actual are prepared for management on a monthly basis and Board of Governors on a quarterly basis.
Accounts receivable over 90 days old should be investigated and collectibility determined. After all efforts are made to collect accounts, those which are determined to be not collectible should be written off.	The revisions to Operational Guidelines for overdue student accounts are being finalized for approval by Management and the Board.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Purchase orders should be issued in accordance with the operational guidelines and procedures.	In some cases it is appropriate for institutes at the College to operate with some degree of autonomy. However, to maintain necessary control and promote efficient operation there are a number of purchasing policies and procedures that should apply to all institutes of the College. The College will continue to work with management, institutes and divisional staff to ensure they understand the need for these purchasing policies and will comply.
The Procurement unit should produce a quarterly report on its activities as required by the operational guidelines and procedures.	The College reported that the operational guideline in this area is obsolete and pending the results of a review of the purchasing function, may be removed.
The reporting features within the Purchasing Module of the financial information system should be implemented.	Implementing this recommendation would require the use of an item numbering convention which is not currently at use in the College. The College will consider this recommendation.
The College should more closely monitor its contract training revenues in comparison to budget.	In conjunction with Human Resource Development Canada, the College has implemented a tracking system which allows it to track revenue by individual trainee.
The direct costs to provide contract training should be calculated and compared to related revenues to determine if revenue is covering costs.	The College reported that a review has been completed comparing direct costs of contract training to revenue. The review indicated that revenue has been covering direct costs.
The College should do a full costing of its programs including an appropriate allocation of indirect costs.	Work on this recommendation is on-going.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Planning	
Based on a long-term plan for post secondary education endorsed by government, the College should develop a long-term plan that indicates the direction for the College in relation to the Mission and overall goals of the College.	A working committee of Departmental and Holland College representatives has been established to deal with common issues surrounding planning and to share information on future direction.
Reports on results achieved in relation to the strategic plan should be presented to the Board of Governors on a quarterly basis.	A reporting format has been developed for reporting to the Board of Governors on progress in relation to the strategic plan. The College is investigating whether semi-annual reporting would be more appropriate than quarterly reporting.
The College should work to establish a framework for operational planning at the Division/Institute level.	This recommendation has been implemented.
College Programs	
The College should ensure that procedures on evaluation of teaching staff are developed, communicated, and adhered to throughout the College.	The College has entered into a contract with a consultant for the development of an Employee Appraisal/Evaluation Process. This work will be complete by March 31, 2001.
For the Atlantic Tourism and Hospitality Institute, specific advisory roles and responsibilities in relation to programs and courses should be documented and approved.	The Atlantic Tourism and Hospitality Institute managers have partially completed their first draft of the roles and responsibilities of Advisory Groups in relation to programs and are near completion of a tentative list of potential Advisory Board members.
Procedures for Divisional/Departmental meetings, established in conjunction with the ISO 9000 quality certification received by the College, should be adhered to.	Both the Justice Institute of Canada and the Institute of Adult and Community Education, which were the institutes where problems had been noted, have now implemented this recommendation.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Consideration should be given to having the Institute of Adult and Community Education programs included in the Critical Performance Indicator Report.	The Institute of Adult and Community Education programs have been included on one part of the Critical Performance Indicator report for 1999-2000. Discussions regarding implementation of the balance of indicators are continuing.
Human Resources	
The policies being developed by the Institute of Adult and Community Education should be approved by the Board of Governors of Holland College.	These policies have been forwarded to the President's office and will be tabled and considered by the Board of Governors of Holland College by December 2000.
Management of the Institute of Adult and Community Education and the Atlantic Tourism and Hospitality Institute should document the policies and guidelines to fill positions and have them approved by the Institute Boards and the Board of Governors.	The first draft of the policies and guidelines for the Atlantic Tourism and Hospitality Institute have been completed and are presently under review.
The College should complete the development of a performance review process to ensure employees are reviewed at least annually.	The College has entered into a contract with a consultant for the development of an Employee Appraisal/Evaluation Process. This work will be complete by March 31, 2001.
Registrar's Office	
The Registrar's Office should complete a business process analysis as required by the Board of Governors and include recommendations for improvement in the Registrar's Office.	The Registrar's Office continues to review and improve on its functions. A more formal business process analysis will be undertaken as soon as resources are available.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The College should consolidate its current enrolment information and prepare a documented Enrolment Management Plan which should be updated on a regular basis. The plan should set the desired student enrolment by program, include a recruitment management plan, require performance information on the achievement of recruitment plan objectives, and include retention strategies.	As a result of the Auditor General's recommendation, the Management Executive Committee, the Marketing/Recruitment Manager and the Registrar met in February 2000 to develop an Enrollment Management Plan for 2000-2001. In future, this will be carried out in the fall which will help us to develop our marketing and recruiting strategy at an earlier date. This plan outlines the desired student enrollment by program and contains strategies to achieve target figures outlined in the Enrollment/Management Plan. It also contains student retention strategies.
The temporary Student Information System should be replaced as soon as possible with an improved system that meets the student information needs of the College.	The College agrees with this recommendation. More specific measures to support the financing of a Student Information System are currently being put in place.
The Enrolment Management Report should be modified to indicate the year an applicant is interested in applying for.	This recommendation has been implemented.
Facilities	
Holland College should develop a plan of action to deal with the issues raised in the engineering studies, as well as other repair and maintenance needs. Periodic reports showing repairs completed compared to planned repairs should be presented to management.	A Facility Strategic Plan has been developed. The college is currently in the process of implementing a monitoring and reporting mechanism.
The College should review the current utilization of space by program and prepare a space utilization plan.	A Facility Strategic Plan has been tabled. A space plan has been completed for Charlottetown Centre and is on-going for other Centres.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Holland College should give immediate attention to possible options for disposal of Harbourside Centre. In the absence of immediate disposal possibilities, the potential for refinancing at lower interest costs should be investigated and the College should consider measures to minimize the net operating losses of this site including obtaining additional tenants for vacant space.	Progress has been made toward addressing this recommendation. Further work with Government is needed to finalize the details.
All facilities should be assigned cost codes and summary financial reports for each facility should be prepared for management on a timely basis.	With the exception of the Atlantic Tourism and Hospitality Institute, the financial management system at the College currently captures costs on a centre by centre basis for those facilities which Holland College directly controls. Restructuring of the Atlantic Tourism and Hospitality Institute accounts will be part of the budget cycle for 2001-2002.
Holland College should extend implementation of on-line inquiry functions on the financial information system to provide up-to-date budget and expenditure information to management and eliminate the additional manual records now in use.	Implementation has begun and will be complete by December.
Holland College should seek more economical lease rates in Montague and Souris	The College is conducting a review of space requirements in those communities, including the availability of suitable space, and the feasibility of obtaining reduced costs and/or an alternate location.
All facilities rentals should be arranged through the Facilities Section and documented in rental agreements.	The College intends to develop a policy for approval by management that requires all facility rentals to be arranged by the Administrative Section of Human and Corporate Services.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Arrangements for third party use of facilities of the Justice Institute should be formalized in an agreement detailing facilities use and service provisions of each party and including adequate insurance and indemnification provisions.	The Justice Institute of Canada will conduct a review of its facility requirements and proceed to establish formalized lease agreements for facility rentals to third parties which include use and service provisions as well as adequate insurance provisions.
Information Technology	
The College should document a formal long term IT strategy, with appropriate approval at the management level.	Management indicated agreement with this recommendation, however due to budgetary restraints they were unable to identify funds in the 2000-2001 budget. The College will attempt to identify funds in the 2001-2002 budget.
Changes to the design of any IT application, either existing or under development, should be formally documented and include approval from senior management.	The College agrees with this recommendation and intends to implement it for new development initiatives.
Test plans should be formally documented and implemented for all development projects in the future.	The College agrees with this recommendation and intends to implement it for new development initiatives.
Formal sign off rather than verbal acceptance should be obtained from all end-users at completion of user acceptance testing.	The College agrees with this recommendation and intends to implement it for new development initiatives.
Formal procedures for transferring programs into the production environment should be developed and implemented.	The College agrees with this recommendation and intends to implement it for new development initiatives.
Formal post-implementation reviews should be performed on all future in-house development projects.	The College agrees with this recommendation and intends to implement it for new development initiatives.
Documentation for the Student Information System interim project should be completed to ensure end-users and technical support staff have adequate information to use and maintain the application.	The College agrees with this recommendation, however, there are no new development initiatives at the present time.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Disaster Recovery planning should be developed for the Student Information System interim project and included in an IT Disaster Recovery Plan.	Computer Services has completed a Disaster Recovery plan which includes a section pertaining to the interim Student Information System application.
The College should review the current training policies to ensure a minimum level of competency is established in the core applications.	This has been identified under the Strategic Plan for the Enterprise Development Division. The Learning Management Department will identify and assist in the development of a plan for implementation.
Computer Services should obtain appropriate training for the individuals maintaining the Windows NT and UNIX servers to ensure these servers are adequately maintained.	This is an on-going process. One staff person has been on one UNIX course and another staff person has taken a Windows NT course.
Computer Services should develop and document an IT Disaster Recovery Plan as soon as possible. The plan should also be tested on a regular basis to ensure procedures will work and are current.	Computer Services has completed a Disaster Recovery plan and is planning revisions to update the changes since the Royalty Centre merge.
Computer Services should obtain and install the required additional random access memory as soon as possible, in order to avoid further performance problems on the mail servers.	This recommendation has been implemented.
Library Services and Bookstore Operations	
Holland College should develop a process for the receipt and reporting of resource materials that meets the needs of programs and ensures that resource materials are catalogued and controlled.	Implementation of a new library system is planned as a component of the Smart Communities project.

Auditor General's Recommendation	Status/Management Response
The informal operating procedures of the Bookstore should be formally documented and approved by management.	A survey of users of the Bookstore has been completed and a review of bookstore operations is being conducted. The results will provide input for new guidelines and procedures.
The financial results of the Bookstore operations should be reported to the Bookstore Manager and monitored against budget on a timely basis.	The financial information system produces revenue and expenditure reports for Bookstore Operations. These reports are being distributed to the Bookstore Manager for monitoring against the budget. The Bookstore Manager is included in the plan for on-line access.

RAIL LANDS DEVELOPMENT - 1999 ANNUAL REPORT

11.8 We reported in our 1999 Annual Report on our examination of Rail Lands Development. Last year we provided information on the action taken to address the recommendations in that report. This year we are providing an update on the status of recommendations which had not been specifically addressed in the information provided to us last year.

Auditor General's Recommendation	Status/Management Response
The Department of Transportation and Public Works should enter into a management agreement with the Department of Fisheries and Tourism, clearly setting out the responsibilities of both Departments with respect to the rail lands.	A draft agreement between the Department of Transportation and Public Works and the Department of Tourism has been developed. The proposed agreement sets out the obligations of both Departments with respect to the operation and maintenance of the trails.
All costs pertaining to the Confederation Trail should be identified, and charged to proper accounts, so that costs can be reported each year.	The budget of Transportation and Public Works now contains an allocation for maintaining and repairing the trail. The Department of Tourism is responsible for funding the programming, security and marketing activities.

UNIVERSITY OF PRINCE EDWARD ISLAND - 1999 ANNUAL REPORT

11.9 We conducted a value for money audit at the University of Prince Edward Island at the request of the Legislative Assembly which was reported in our 1999 Annual Report. Last year we provided information on the action taken to address the recommendations in that report. This year we are providing an update on the status of recommendations which had not been specifically addressed in the information provided to us last year.

Auditor General's Recommendation	Status/Management Response
In accordance with the University Act, the President should prepare a formal report annually to the Board of Governors and the Senate. This report should report on the progress and requirements of the University and include any recommendations considered necessary.	The University has indicated that a comprehensive formal report on progress and requirements of the University is complete and will be brought to the University community and government before the end of the calendar year.
A comprehensive conflict of interest policy should be prepared and approved for Board members, management, faculty and staff. It should include the following: • definition of conflict of interest; • assignment of responsibility for administration of the policy; and • description of disclosures and reporting required.	All existing policies have been inventoried and are being reviewed through the University's Policy Project. This working group continues the preparation of a web-based policy manual.
The University Act should be amended to require the University to include performance information in its annual report.	The report on the progress and requirements of the University will focus on the most important indicators in the University context.
Performance information in the University's annual report should be subject to periodic audit.	In their initial response the University indicated the review of performance information reported in the annual report would be conducted by the Board of Governors.
The University should establish policies on authority and limits for research expenditures funded through discretionary accounts.	The University reported it will develop an overall research plan in conjunction with appointment of UPEI's first Vice-President of Research and Development.

11. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Department of Athletics, Recreation and Physical Education should review the membership rate structure to reaffirm what degree of subsidization is appropriate for each type of user and how the rates compare to other entities offering similar programs and services. User fees should be set in accordance with realistic financial objectives.	The University reported that Sport Centre Community Programs are reviewed annually including revenues, expenditures and rate structures in place. The review takes into consideration the local market and information from other universities with similar facilities.

PUBLIC ACCOUNTS COMMITTEE

12. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

12.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. The current Committee consists of four members and is chaired by the Leader of the Official Opposition. Ministers of the Crown are not eligible for appointment to this Committee. The Public Accounts Committee is an important link in the accountability process. It provides a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable.

12.2 The primary function of the Committee is the review of the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

12.3 The Committee met several times during the year to review the observations and issues raised in my 2000 Annual Report. I appeared before the Committee on three occasions and assisted in their deliberations by providing further information, explanation and clarification where requested.

12.4 In December 2000, the Committee prepared an interim report to the Legislature on its proceedings, and endorsed the recommendations and observations made in the 2000 Report of the Auditor General. In particular, the Committee reiterated that the Department of the Provincial Treasury should prepare consolidated budget estimates for approval by the Legislative Assembly, and Treasury Board should develop specific criteria to determine when special warrants are appropriate under the Financial Administration Act. Further, the Committee recommended that the staffing needs of the Office of the Auditor General be addressed.

12.5 The Committee through its deliberations has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

13. OFFICE OF THE AUDITOR GENERAL

MISSION AND MANDATE

13.1 The Office of the Auditor General conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. The Office promotes best practices in government operations.

13.2 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government. Under the Act, authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

13.3 The Act also gives the Auditor General a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently in compliance with the applicable statutory requirements.

GUIDING PRINCIPLES

13.4 The following principles are used to guide the Office in carrying out its mission:

- *Serving the Public Interest* - We focus on significant issues to achieve a positive and measurable impact for the benefit of the public. In particular, we promote value for money in the use of funds raised from taxpayers.

- *Commitment to Excellence* - We strive to meet the highest standards of professionalism and integrity. While maintaining our independence, we seek to develop a relationship of respect and trust with those we audit. We are committed to delivering quality reports.

- *Being Cost-Conscious* - We seek to make the best possible use of our resources and to minimize costs without compromising quality or service.

- *Promoting Innovation* - We are committed to learning and growth. We promote the use of innovative thinking and state-of-the-art technology to continuously improve the quality of what we do.

RESPONSIBILITIES AND FUNCTIONS

13.5 The responsibilities of the Auditor General are set out in the Audit Act. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two types of assignments - financial audits, and special audits and examinations.

13.6 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown agencies. Comments on our audit of the Public Accounts are contained in a separate section of this report.

13.7 The mandate also allows the Auditor General to conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. In addition, special examinations may include work on compliance with applicable authorities on a government-wide basis and examinations carried out under special request where deemed appropriate.

13.8 In conducting its work, the Office performs an important service to the Legislative Assembly. In some cases where government reports information about its performance we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances we assess government's performance directly and report our findings to the Legislative Assembly and the public. Flowing from these assessments are recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

13.9 As the auditor of government, the Auditor General works solely for the Legislative Assembly, not for government. The Audit Act establishes the legal framework for an independent audit office. Some of the key components in building that independence include: the existence of a Legislative Audit Committee which ensures the Office's resources and operations are determined independent from government, the authority to carry out the audits and examinations which the Auditor General deems necessary, the right of access to records and information necessary to perform audit functions, the power to request and receive any information or explanations required, and the requirement to report annually to the Legislative Assembly.

13.10 In addition, to these important components, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Planning Our Work

13.11 Each year an audit work plan is developed consistent with the audit priorities established by the Office. This plan includes a number of financial statement audits as well as special audits and examinations. Financial statement audits are completed annually.

13.12 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a particular division or program. Occasionally an audit may be carried out on a particular function on a government-wide basis.

13.13 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of the expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

13.14 In addition, the Office may be requested by government to carry out an examination or review for a particular purpose. Efforts are made to accommodate such requests where resources permit.

Professional Standards

13.15 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

13.16 Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

13.17 This year the staff of the Office of the Auditor General consisted of three audit directors, ten auditors and two administrative staff. We are having difficulty filling one of our vacant positions and due to budgetary restraint three other audit positions are vacant. We continue to strive with limited staff to provide audit coverage of significant areas of government on a cyclical basis.

13.18 For the year ended March 31, 2001 budgeted expenditures for the Office amounted to $1,203,600. Of this amount, nearly 90 percent related to salary costs.

13.19 Under the Audit Act, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer.

Professional Affiliations

13.20 Staff of the Office strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. A close association is maintained with a number of professional organizations and experience and methodology is shared with a view to contributing to the further development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Council of Legislative Auditors - The annual meeting of the Council brings together legislative auditors from the federal government and the provinces and provides an opportunity for information exchange, discussion, and development and enhancement of legislative audit practices.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. It is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various committees.

OBJECTIVES AND ACCOMPLISHMENTS

13.21 The Office has established two broad goals, one of which is:

To promote improved accountability for, and management of, public funds.

To this end we have developed a number of supporting objectives. The following paragraphs provide information on each of these objectives and our accomplishments during the year.

(I) To prepare an Annual Report for the Legislative Assembly as required under the Audit Act, on the results of the audits that have been carried out.

13.22 The Annual Report is a summary of the most significant issues and recommendations resulting from our work. It is our expectation that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provides the impetus to bring about the improvements recommended in the Report.

13.23 Our 2000 Annual Report was tabled in the Legislative Assembly on May 18, 2000. I appeared before the Public Accounts Committee on a number of occasions and provided support to their deliberations through participation in the discussions and provision of further explanation and information as requested.

(II) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

13.24 We issued an unqualified opinion on the Public Accounts again this year. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of audits of Crown Corporations, Pension and Trust Funds, and other Agencies.

13.25 Through this process we provide assurance to the taxpayers through the Legislative Assembly, on the fairness of information reported by government.

(III) To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

13.26 The amount of special audit and examination work that we are able to carry out is a function of the amount of staff resources we have available after having carried out the financial statement audits that we are required by legislation to complete. Information is provided elsewhere in this report on the special audits and examinations completed during the year.

13.27 Our special audits and examinations provide information and assurance on the management of public resources in a number of selected areas. We provide an assessment and make recommendations to improve management controls and practices where necessary.

(IV) To perform other investigations as may be required from time to time.

13.28 Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our reports. It has also been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits.

13.29 Providing follow-up information on the status of our recommendations is an important part of the legislative audit function and the accountability of government to the Legislative Assembly. It provides important feedback to the Public Accounts Committee and assists in its role of holding government accountable.

13.30 Our second broad goal is:

> ***To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

The supporting objectives and related accomplishments follow.

(I) To maintain technical competence in an evolving accounting and auditing environment.

(II) To remain aware of and provide input to the development of public sector accounting standards.

(III) To build leadership within the Office by providing professional development and training opportunities for staff.

13.31 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep abreast of emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience.

13.32 Audit staff within the Office have professional accounting designations. We ensure experienced and technically competent staff are available through providing a range of in-house and external training and professional development opportunities. In addition, individual staff members have attended various professional conferences, seminars and meetings.

SCHEDULES

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 1999/2000	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL APPROPRIATION	EXPENDITURES 1999/2000	UNDER EXPENDITURES	EXPENDITURES 1998/99
AGRICULTURE AND FORESTRY	$ 21,279,900	$ (33,000)	$ 21,246,900	$ 3,331,800	$ -	$ 24,578,700	$ 24,382,273	$ 196,427	$ 19,180,052
PEI GRAIN ELEVATORS CORPORATION	165,000	-	165,000	513,300	-	678,300	678,300	-	105,000
AUDITOR GENERAL	1,179,100	-	1,179,100	-	-	1,179,100	1,109,521	69,579	1,076,822
COMMUNITY SERVICES AND ATTORNEY GENERAL	31,612,300	(57,600)	31,554,700	1,192,300	-	32,747,000	32,746,991	9	32,458,882
COUNCIL OF MARITIME PREMIERS	183,700	-	183,700	-	-	183,700	175,792	7,908	185,000
DEVELOPMENT	8,022,700	796,200	8,818,900	6,747,300	-	15,566,200	14,990,447	575,753	8,523,442
EMPLOYMENT DEVELOPMENT AGENCY	3,683,500	-	3,683,500	1,212,700	-	4,896,200	4,832,334	63,866	4,621,981
PEI BUSINESS DEVELOPMENT (ENTERPRISE PEI)	18,988,200	-	18,988,200	6,729,000	-	25,717,200	25,717,200	-	18,129,154
EDUCATION	177,007,600	-	177,007,600	5,481,400	788,900	183,277,900	183,206,414	71,486	184,639,824
EMPLOYEE BENEFITS	9,704,800	-	9,704,800	768,300	-	10,473,100	10,473,029	71	10,698,254
EXECUTIVE COUNCIL	2,360,900	-	2,360,900	-	-	2,360,900	2,127,207	233,693	2,093,567
FISHERIES AND TOURISM	2,443,400	-	2,443,400	66,100	-	2,509,500	2,509,439	61	12,126,918
TOURISM PEI	10,345,400	-	10,345,400	197,700	-	10,543,100	9,436,383	1,106,717	-
GENERAL GOVERNMENT	9,478,700	-	9,478,700	26,420,100	(6,972,000)	28,926,800	28,876,016	50,784	27,609,232
HEALTH AND SOCIAL SERVICES	296,467,700	-	296,467,700	8,996,500	6,183,100	311,647,300	310,552,633	1,094,667	299,274,096
INTEREST CHARGES ON DEBT	100,620,000	-	100,620,000	2,255,800	-	102,875,800	102,695,019	180,781	101,374,915

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 1999/2000	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL APPROPRIATION	EXPENDITURES 1999/2000	UNDER EXPENDITURES	EXPENDITURES 1998/99
INTERMINISTERIAL WOMEN'S SECRETARIAT	$ 324,200	$ -	$ 324,200	$ -	$ -	$ 324,200	$ 322,698	$ 1,502	$ 285,520
ISLAND REGULATORY AND APPEALS COMMISSION	1,041,200	-	1,041,200	-	-	1,041,200	1,041,200	-	1,020,236
LEGISLATIVE ASSEMBLY	2,740,800	-	2,740,800	46,500	-	2,787,300	2,745,330	41,970	2,686,723
PEI ENERGY CORPORATION	66,800	-	66,800	131,700	-	198,500	187,658	10,842	64,172
PEI LENDING AGENCY	731,900	-	731,900	-	-	731,900	731,900	-	705,300
PEI PUBLIC SERVICE COMMISSION	4,829,700	(32,300)	4,797,400	1,872,900	-	6,670,300	6,670,248	52	3,118,607
PROVINCIAL TREASURY	11,804,300	(66,100)	11,738,200	222,400	-	11,960,600	11,933,423	27,177	10,608,896
TECHNOLOGY AND ENVIRONMENT	14,762,000	(2,930,600)	11,831,400	1,057,700	-	12,889,100	12,581,400	307,700	13,826,402
TRANSPORTATION AND PUBLIC WORKS	59,872,500	2,323,400	62,195,900	3,477,000	-	65,672,900	65,610,594	62,306	62,100,219
TOTAL ORDINARY	$789,716,300	$ -	$789,716,300	$70,720,500	$ -	$860,436,800	$856,333,449	$4,103,351	$816,513,214
CAPITAL									
TRANSPORTATION AND PUBLIC WORKS	$ 34,252,000	$ -	$ 34,252,000	$17,755,000	$ -	$ 52,007,000	$ 52,006,999	$ 1	$ 35,071,179
GRAND TOTAL	$823,968,300	$ -	$823,968,300	$88,475,500	$ -	$912,443,800	$908,340,448	$4,103,352	$851,584,393

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE AND FORESTRY		
	PLANNING AND DEVELOPMENT		
EC 1999-641	Grants	$ 750,000	
EC 2000-131	Grants	250,000	$ 1,000,000
	Special Warrants EC 1999-641 and 2000-131 provided additional funding required for the Agriculture and Environmental Resource Conservation Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Waterway Protection Support Fund.		
	DEPARTMENT MANAGEMENT		
EC 1999-640	Professional and contract services		350,000
	AGRICULTURE		
EC 1999-640	Materials, supplies and services	$ 5,500	
	Professional and contract services	5,800	11,300
	Special Warrant EC 1999-640 in the total amount of $361,300 provided additional funding required to cover the costs of a settlement as well as fund the Partners in Research Initiative Agreement. The expenditure was to be partially offset by $11,300 in revenue from the PEI Agricultural Research Investment Fund Inc.		
	FARM INCOME SUPPORT		
	Grants		
EC 2000-95	National Income Stabilization Account	$ 340,500	
	Agriculture Income Disaster Assistance	1,630,000	1,970,500
	Total		$ 3,331,800
	Special Warrant EC 2000-95 provided additional funding required to cover changes in the Agricultural Income Disaster Assistance (AIDA) program, and to cover increased participation in the Net Income Stabilization Account (NISA) program.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PEI GRAIN ELEVATORS CORPORATION		
EC 2000-98	General Administration		$ 513,300
	Special Warrant EC 2000-98 provided additional funding required to cover accumulated over-expenditures of the PEI Grain Elevators Corporation.		
	COMMUNITY SERVICES AND ATTORNEY GENERAL		
	PLANNING AND INSPECTION SERVICES		
EC 1999-424	Field supplies	$ 5,000	
	Printing	4,000	
	Advertising and promotion	28,000	
	Sign materials	271,300	
	Salaries	32,000	
	Travel	8,800	
	Miscellaneous	900	
EC 2000-505	Salaries	26,300	
	Travel	36,200	$ 412,500
	Special Warrant EC 1999-424 in the total amount of $350,000 provided additional funding required to cover the costs of civic address signage for the 911 system implementation. The expenditure was to be offset 100 percent with revenue from the sale of the signs.		
	Special Warrant EC 2000-505 above in the total amount of $62,500 provided additional funding required to purchase an Emergency Measures Vehicle, as well as to fund costs for Planning and Inspection Services.		
	LEGAL AND JUDICIAL SERVICES		
EC 1999-453	Professional and contract services	$ 80,000	
EC 2000-130	Professional and contract services	57,000	
	Administration	30,000	
	Equipment	95,000	
	Salaries	130,000	392,000
	Special Warrant EC 1999-453 provided additional funding required to implement network facilities interconnecting various Provincial buildings via high speed fibre-optic cable.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
	COMMUNITY AND CORRECTIONAL SERVICES		
EC 2000-31	Administration	$ 12,200	
	Materials, supplies and services	11,200	
	Professional and contract services	50,000	
	Salaries	123,600	
	Travel	7,900	$ 204,900
	Special Warrant EC 2000-31 provided additional funding required to fund Youth Criminal Justice Act initiatives. The expenditure was to be offset 100 percent by federal revenue.		
	POLICY AND ADMINISTRATION		
EC 2000-130	Administration	$ 1,800	
	Materials, supplies and services	20,000	
	Professional and contract services	40,000	
	Salaries	81,100	
	Equipment	40,000	182,900
	Total		$ 1,192,300
	Special Warrant EC 2000-130 in the total amount of $494,900 provided additional funding required to cover over-expenditures of the Department of Community Services and Attorney General.		
	DEVELOPMENT		
	FEDERAL/PROVINCIAL COOPERATION AGREEMENTS		
EC 1999-642	Grants	$ 2,996,600	
EC 1999-643	Grants	2,250,000	
EC 2000-135	Grants	410,000	$ 5,656,600
	Special Warrant EC 1999-643 provided additional funding for expenditures under an amendment to the Regional Economic Development Agreement (REDA). This expenditure was to be offset 100 percent by revenue from the Special Projects Development Fund; however as a result of additional monies being received from the Federal Government, $440,000 was returned to the Special Projects Development Fund.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrants EC 1999-642 and EC 2000-135 provided additional funding required for expenditures under an amendment to the Regional Economic Development Agreement. The expenditures were to be offset 100 percent by federal revenue under the terms of REDA.		
	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
EC 2000-68	Salaries	$ 39,000	
EC 1999-644	Grants- Community Development	600,000	
EC 2000-133	Grants	84,000	
EC 2000-134	Grants- Community Development	150,000	$ 873,000
	Special Warrant EC 2000-68 provided additional funding required for the transfer of an employee to Development from Tourism PEI. The expenditure was offset 100 percent by sequestration of funds originally budgeted for Tourism PEI. Also the expenditure was to be partially offset by $16,900 in federal revenue under the terms of the Canada-Prince Edward Island General Agreement on the Promotion of Official Languages.		
	Special Warrant EC 1999-644 provided additional funding required to cover the costs of the Community Development Program for the 1999-2000 fiscal year. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		
	Special Warrant EC 2000-133 provided additional funding required to assist in the revitalization and development of the PEI craft industry and strategic opportunities. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		
	Special Warrant EC 2000-134 provided additional funding required for Community Development projects. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		
	REGIONAL SERVICES CENTRES/ACCESS PEI		
EC 2000-132	Management	$ 33,400	
	Summerside Access PEI	15,200	
	Johnny Ross Young RSC	14,600	
	West Prince RSC	11,800	
	Evangeline RSC	86,800	
	Tignish and Area Government Services	43,600	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Riverside Access PEI	$ 12,300	$ 217,700
	Total		$ 6,747,300

Special Warrant EC 2000-132 provided additional funding to extend the availability of French service at Access PEI locations in the Province. The expenditure was to be offset 100 percent by federal revenue under the terms of the Canada-Prince Edward Island General Agreement on the Promotion of Official Languages.

EMPLOYMENT DEVELOPMENT AGENCY

JOB CREATION AND JOB PLACEMENT

EC 1999-338	Grants	$ 400,000	
EC 1999-493	Grants	737,700	
EC 2000-138	Grants- Community Job Creation Projects	75,000	$ 1,212,700

Special Warrant EC 1999-338 provided additional funding required to create additional employment opportunities within Special Projects and Jobs for Youth.

Special Warrant EC 1999-493 provided additional funding required to meet demands for job creation project placements.

Special Warrant EC 2000-138 provided additional funding required to fund additional Community Job Creation Projects.

PEI BUSINESS DEVELOPMENT

EC 2000-129	Film development		$ 1,500,000
EC 2000-252	Sectoral development		2,635,000
EC 2000-159	Development assistance	$ 2,100,000	
EC 2000-237	Development assistance	494,000	2,594,000
	Total		$ 6,729,000

Special Warrant EC 2000-129 provided additional funding required to meet increased growth and resultant assistance demand in the film and new media sector. The expenditure was to be offset 100 percent by revenue from the Special Projects Development Fund.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrant EC 2000-252 provided additional funding required for further development of the Access.ca Internet project. The expenditure was to be offset 100 percent by revenue from Industry Canada under the terms of the Access.ca Phase II Development Agreement.		
	Special Warrant EC 2000-159 provided additional funding required to comply with the new accounting guidelines on public sector portfolio investments, in regard to the share holdings of Polar Foods International.		
	Special Warrant EC 2000-237 provided additional funding required for provincial government development infrastructure assistance.		
	EDUCATION		
	ENGLISH PROGRAMS AND SERVICES		
EC 1999-492	Wages		$ 43,500
	Special Warrant EC 1999-492 provided additional funding to cover costs associated with the Youth Employment (SchoolNet) Initiative. The expenditure was to be offset 100 percent by revenue from Industry Canada under the terms of the Youth Employment Initiative Information Technology Training Agreement.		
	CONTINUING EDUCATION AND TRAINING		
EC 2000-33	Grants	$ 3,318,900	
EC 2000-96	Grants- College L'Acadie	63,200	
EC 2000-137	Grants- Maritime Provinces Higher Education Commission	1,438,100	4,820,200
	Special Warrant EC 2000-33 provided additional funding required for training EI clients at educational institutions. The expenditure was to be offset 100 percent by federal revenue under the terms of the Labour Market Development Agreement.		
	Special Warrant EC 2000-96 provided additional funding required for projects to improve the quality of French first language education at the post-secondary level. The expenditure was to be offset 100 percent by federal revenue under the terms of the Official Languages in Education program.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrant EC 2000-137 provided additional funding required to fund the operating portion of the 1998-1999 deficit as reported by Holland College.		
	ADMINISTRATION AND MANAGEMENT		
EC 2000-34	Equipment	$ 254,200	
EC 2000-136	Professional and contract services	163,500	$ 417,700
	Special Warrant EC 2000-34 provided additional funding to purchase computer equipment and infrastructure for the Provincial Library system. The expenditure was to be offset 100 percent by revenue from the Gates Learning Foundation.		
	Special Warrant EC 2000-136 provided additional funding required to fund legal costs.		
	ELEMENTARY AND SECONDARY GRANTS		
EC 2000-32	School construction and capital repair		200,000
	Total		$ 5,481,400
	Special Warrant EC 2000-32 provided additional funding required for construction costs at West Royalty School. The expenditure was to be offset 100 percent by revenue from the Department of Transportation and Public Works from the sale of surplus school property.		
	EMPLOYEE BENEFITS		
EC 2000-649	Workers Compensation Board		$ 768,300
	Special Warrant EC 2000-649 provided additional funding required for a year-end accrual adjustment for Employee Benefits.		
	FISHERIES AND TOURISM		
	DEPARTMENT MANAGEMENT		
EC 1999-494	Wages		$ 24,200

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrant EC 1999-494 provided additional funding required to provide administrative support in the Department of Fisheries and Tourism. The expenditure was offset 100 percent by sequestration of funds originally budgeted in Tourism PEI.		
	FISHERIES AND AQUACULTURE		
EC 2000-140	Professional and contract services		$ 41,900
	Total		$ 66,100
	Special Warrant EC 2000-140 provided additional funding required for a joint project to assist processing plants in formulating a revised Quality Management Program.		
	TOURISM PEI		
	PARKS EAST OPERATIONS		
EC 2000-139	Equipment	$ 6,700	
	Material, supplies and services	14,500	
	Professional and contract services	30,000	
	Salaries	45,400	
	Travel and training	5,000	
EC 2000-613	Equipment	11,100	$ 112,700
	PARKS WEST OPERATIONS		
EC 2000-139	Administration	$ 4,700	
	Equipment	6,600	
	Materials, supplies and services	11,000	
	Professional and contract services	8,000	
	Salaries	6,600	
	Travel and training	16,000	
EC 2000-613	Equipment	11,100	64,000
	Special Warrant EC 2000-139 in the total amount of $154,500 provided additional funding required to cover additional expenditures of the provincial parks. The expenditure was to be partially offset by an increase in revenue of $94,800 in park fees.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	BROOKVALE		
EC 2000-613	Materials, supplies and services	$ 14,700	
	Salaries	6,300	$ 21,000
	Total		$ 197,700
	Special Warrant EC 2000-613 in the total amount of $43,200 provided additional funding required to cover expenditures of Brookvale Ski Park and other provincial parks.		
	GENERAL GOVERNMENT		
	GRANTS		
EC 1999-533	Grants- 2001 Boy Scout Jamboree	$ 250,000	
EC 2000-100	Grants- 2001 Boy Scout Jamboree	34,600	
EC 2000-141	Grants- CUSA Contingency	635,500	$ 920,100
	Special Warrant EC 1999-533 provided additional funding required to provide a grant to the 2001 National Scout Jamboree.		
	Special Warrant EC 2000-100 provided additional funding required for rental and maintenance of lands associated with the 2001 National Scout Jamboree.		
	SALARY NEGOTIATIONS		
EC 2000-141	Salary negotiations		2,000,000
EC 2000-182	Special Projects Fund	$12,500,000	
EC 2000-253	Special Projects Fund	11,000,000	23,500,000
	Total		$26,420,100
	Special Warrant EC 2000-141 in the total amount of $2,635,500 provided additional funding required to fund pending agreements for contract and salary negotiations in the Health and Education sectors as well as increased maintenance costs with respect to negotiations with the City of Summerside under the CUSA Agreement.		
	Special Warrants EC 2000-182 and EC 2000-253 provide additional funding to the Special Projects Fund.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	HEALTH AND SOCIAL SERVICES		
	REGIONALLY DELIVERED SERVICES		
EC 1999-380	Grants	$ 235,800	
EC 2000-111	Grants - Operating	534,600	
EC 1999-646	Grants - Operating	732,100	
	Western Hospital	57,600	
	Community Hospital	103,800	
	Stewart Memorial Hospital	47,000	
	Prince County Hospital	71,500	
	Queen Elizabeth Hospital	1,356,700	
	Kings County Memorial Hospital	105,300	
	Souris Hospital	43,600	
EC 1999-647	Grants- Operating	592,900	
	Western Hospital	17,800	
	Community Hospital	17,800	
	Stewart Memorial Hospital	40,600	
	Prince County Hospital	232,100	
	Queen Elizabeth Hospital	579,100	
	Kings County Memorial Hospital	48,700	
	Souris Hospital	90,600	$ 4,907,600
	Special Warrant EC 1999-380 provided additional funding required to hire student employees for the public sector, institutional and extended care facilities.		
	Special Warrant EC 1999-647 in the total amount of $1,619,600 provided additional funding to cover front-line staffing costs for fiscal year 1999-2000. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Care Stabilization Fund.		
	FINANCE, ADMINISTRATION AND HEALTH INFORMATICS		
EC 1999-645	Administration	$ 600	
	Equipment	412,700	
	Materials, supplies and services	344,500	
	Professional and contract services	287,400	
	Salaries	262,700	
	Travel and training	15,500	
EC 1999-646	Professional and contract services	918,500	2,241,900

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrant EC 2000-645 in the total amount of $1,323,400 provided additional funding required to address Year 2000 readiness.		
	ACUTE AND CONTINUING CARE		
EC 1999-379	Grants	$ 122,000	
EC 1999-646	Grants- Canadian Blood Services	650,000	
	Grants- Community care facilities	300,000	$ 1,072,000
	Special Warrant 1999-379 provided additional funding to implement a Rural Palliative Home Care Project. The expenditure was to be offset 100 percent by revenue from the Federal Health Transition Fund through the Province of Nova Scotia.		
	Special Warrant EC 1999-646 in the total amount of $4,386,100 provided additional funding required to cover over-expenditures for in-province hospitals, East Prince Health facilities, Canadian Blood Services, community care facilities and other regional services.		
	PUBLIC HEALTH AND EVALUATION SERVICES		
EC 2000-97	Administration	$ 7,100	
	Equipment	6,000	
	Materials, supplies and services	13,200	
	Salaries	43,400	
	Travel and training	5,300	75,000
	Special Warrant EC 2000-97 provided additional funding required to allow the Province's Health Information Resource Centre to provide health information services with the Canadian Health Network (CHN). The expenditure was to be offset 100 percent by federal revenues.		
	DEPARTMENT MANAGEMENT SERVICES		
EC 2000-111	In-province physician fees		700,000
	Total		$ 8,996,500
	Special Warrant EC 2000-111 in the total amount of $1,234,600 provided additional funding required to cover payments to Fee for Service Physicians and for increases in rates for Social Assistance payments.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	INTEREST CHARGES ON DEBT		
EC 2000-112	Canada Pension Debentures	$ 168,000	
	Treasury Notes	288,300	
	Provincial Deposit Receipts	592,000	
	Other	1,187,000	
	Bank interest	2,500	$ 2,237,800
	AMORTIZATION OF DEBENTURE DISCOUNT		
EC 2000-112	Amortization		18,000
	Total		$ 2,255,800
	Special Warrant EC 2000-112 provided additional funding required to cover interest charges on debt in excess of budget.		
	LEGISLATIVE ASSEMBLY		
	LEGISLATIVE SERVICES		
EC 1999-605	Grants	$ 15,000	
EC 1999-648	Equipment	14,500	
	Materials, supplies and services	2,000	$ 31,500
	Special Warrant EC 1999-605 provided additional funding to cover expenses of the Third Party office.		
	MEMBERS		
EC 1999-648	Travel and training		5,000
	ELECTIONS		
EC 1999-648	Materials, supplies and services		10,000
	Total		$ 46,500
	Special Warrant EC 1999-648 in the total amount of $31,500 provided additional funding required for office equipment, maintenance of security system, travel and purchase of forms.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PEI ENERGY CORPORATION		
	OPERATIONS		
EC 1999-649	Administration	$ 6,800	
	Equipment	20,000	
	Materials, supplies and services	3,800	
	Professional and contract services	2,100	
	Salaries	73,500	
	Travel and training	21,000	
	Grants - Crown Corporations	4,500	$ 131,700
	Special Warrant EC 1999-649 provided additional funding required to cover expenditures of the Corporation, including studying options for securing natural gas to Prince Edward Island.		
	PEI PUBLIC SERVICE COMMISSION		
	STAFF DEVELOPMENT		
EC 1999-425	Professional and contract services		$ 20,000
	Special Warrant EC 1999-425 provided additional funding required to cover costs of the Knowledge Economy Partnership Project on Leadership and Learning. The expenditure was to be offset 100 percent by federal revenue under the terms of the Knowledge Economy Partnership.		
	MANAGEMENT		
EC 1999-650	Professional and contract services	$ 131,000	
EC 2000-650	Professional and contract services	1,402,900	
EC 2000-99	Miscellaneous	319,000	1,852,900
	Total		$ 1,872,900
	Special Warrants EC 1999-650 and EC 2000-99 provided additional funding required to cover costs associated with the implementation of PeopleSoft human resources computer system. EC 2000-99 was originally recorded in the 1998-1999 fiscal year, but was later reallocated to the 1999-2000 fiscal year.		
	Special Warrant EC 2000-650 provided additional funding required to record a year-end accrual adjustment regarding acquisition of the PeopleSoft human resources computer system.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PROVINCIAL TREASURY		
	FISCAL MANAGEMENT		
EC 1999-651	Administration	$ 5,750	
	Equipment	3,000	
	Materials, supplies and services	3,000	
	Salaries	95,650	
	Travel and training	10,000	$ 117,400
	Special Warrant EC 1999-651 provided additional funding required to cover salaries and administrative costs related to administration of the PEI Master Trust. The expenditure was to be offset 100 percent by revenue from the PEI Master Trust.		
	OFFICE OF THE COMPTROLLER		
EC 2000-142	Equipment		105,000
	Total		$ 222,400
	Special Warrant EC 2000-142 provided additional funding required to replace the existing central computer server which supports the Province's Financial Information System.		
	TECHNOLOGY AND ENVIRONMENT		
	WATER RESOURCES		
EC 1999-652	Salaries	$ 11,000	
EC 1999-653	Grants	605,000	$ 616,000
	Special Warrant EC 1999-653 provided additional funding required to establish the Environmental Action Program. The expenditure of $605,000 was to be offset by revenue from the Special Projects Waterway Protection Support Fund. As a result of expenditures being less than anticipated, $265,800 was returned to the Special Projects Fund.		
	FRANCOPHONE AFFAIRS		
EC 1999-652	Professional and contract services	$ 48,200	
EC 2000-143	Salaries	16,800	65,000

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Special Warrant EC 1999-652 in the total amount of $59,200 provided additional funding required for the Nitrate in Ground Water Research Project and the French Language Services initiative. The expenditure was to be offset 100 percent by federal revenues.		
	FISH AND WILDLIFE		
EC 2000-143	Travel	$ 4,500	
	Professional and contract services	4,500	$ 9,000
	TECHNOLOGY PEI		
EC 2000-143	Grants		367,700
	Total		$ 1,057,700
	Special Warrant EC 2000-143 in the total amount of $393,500 provided additional funding required to fund expenses relating to the Community Access Program, Wetland Management Program, Eastern Habitat Joint Venture Program and Francophone Affairs. The expenditure was to be offset 100 percent by federal revenue.		
	TRANSPORTATION AND PUBLIC WORKS		
	DEPARTMENTAL MANAGEMENT		
EC 2000-144	Administration	$ 18,900	
	Materials, supplies and services	68,000	
	Salaries	14,300	
	Equipment	2,500	
	Professional and contract services	11,000	
	Travel	10,400	$ 125,100
	ENVIRONMENTAL MANAGEMENT		
EC 2000-144	Professional and contract services		35,800
	HIGHWAY MAINTENANCE OPERATION		
EC 2000-144	Administration	$ 78,300	
	Equipment	77,800	
	Materials, supplies and services	905,700	
	Salaries	1,342,800	
	Travel	31,200	
	Grants	20,600	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Professional and contract services	$ 197,300	$ 2,653,700
	PUBLIC WORKS OPERATIONS		
EC 2000-144	Equipment	$ 73,700	
	Materials, supplies and services	128,000	
	Professional and contract services	162,000	
	Administration	66,000	
	Salaries	29,500	459,200
	CAPITAL PROJECTS DIVISION		
EC 2000-144	Salaries		98,200
	STRATEGIC PLANNING AND DEVELOPMENT		
EC 2000-144	Professional and contract services		105,000
	Total		$ 3,477,000

Special Warrant EC 2000-144 provided additional funding required to cover over-expenditure in Highway Maintenance, Public Works Operations, Strategic Planning and Development, Environmental Management, Capital Projects and Departmental Management.

TRANSPORTATION AND PUBLIC WORKS- CAPITAL

	BUILDINGS		
EC 1999-495	Land	$ 179,600	
EC 1999-654	Brudenell Waste Treatment Facility	4,530,000	
	East Prince Waste Management Facility	470,000	
EC 2000-35	West Prince Regional Services Centre	85,000	
EC 2000-651	Davies Law Courthouse Renovations	6,277,400	$11,542,000

Special Warrant EC 1999-495 provided additional funding required to purchase land.

Special Warrant EC 2000-35 provided additional funding required to renovate the West Prince Regional Services Centre in O'Leary to establish an Access PEI Centre. The expenditure was to be partially offset by $55,000 in revenues from Human Resources Development Canada and the Knowledge Economy Partnership.

ORDER-IN-COUNCIL **LIST OF SPECIAL WARRANTS**

Special Warrant EC 2000-651 provided additional funding required for a year-end adjustment regarding leases for Provincial buildings.

HIGHWAYS

EC 1999-654	Bridges- Development	$ 800,000	
	Highway reconstruction	3,000,000	
	Atlantic Freight Assistance-Development	2,413,000	$ 6,213,000
	Total		$17,755,000

Special Warrant EC 1999-654 in the total amount of $11,213,000 provided additional funding required for road reconstruction and improvement, the Brudenell Resort Infrastructure, the Atlantic Freight Transition Program, bridge washouts and the East Prince Waste Management Facility. The expenditure was to be partially offset by $1,806,600 in revenues from the Federal Disaster Fund and the Atlantic Freight Transition Program.